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TEMPORARY NATIONAL ECONOMIC COMMITTEE

A STUDY MADE FOR THE TEMPORARY NATIONAL ECONOMIC COMMITTEE, SEVENTY-SIXTH CONGRESS, THIRD SESSION, PURSUANT TO PUBLIC RESOLUTION NO. 113 (SEVENTY-FIFTH CONGRESS), AUTHORIZING AND DIRECTING A SELECT COMMITTEE TO MAKE A FULL AND COMPLETE STUDY AND INVESTIGATION WITH RESPECT TO THE CONCENTRATION OF ECONOMIC POWER IN, AND FINANCIAL CONTROL OVER, PRODUCTION AND DISTRIBUTION OF GOODS AND SERVICES

MONOGRAPH No. 20—21

TAXATION, RECOVERY, AND DEFENSE

Printed for the use of the
Temporary National Economic Committee

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MONOGRAPH NO. 20

TAXATION, RECOVERY, AND DEFENSE

H. DEWEY ANDERSON

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This monograph was written by

H DEWEY ANDERSON, Ph. D.

Executive Secretary

Temporary National Economic Committee

The Temporary National Economic Committee is greatly indebted to the author for this contribution to the literature of the subject under review.

The status of the materials in this volume is precisely the same as that of other carefully prepared testimony when given by individual witnesses; it is information submitted for Committee deliberation. No matter what the official capacity of the witness or author may be, the publication of his testimony, report, or monograph by the Committee in no way signifies nor implies assent to, or approval of, any of the facts, opinions, or recommendations, nor acceptance thereof in whole or in part by the members of the Temporary National Economic Committee, individually or collectively. Sole and undivided responsibility for every statement in such testimony, reports, or monographs rests entirely upon the respective authors.

(Signed) JOSEPH C. O'MAHONEY,
Chairman, Temporary National Economic Committee.

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LETTER OF TRANSMITTAL

Hon. Joseph J. O'Mahoney,
Chairman, Temporary National Economic Committee,
United States Senate, Washington, D. C.

My Dear Senator: I have the honor to transmit herewith a study on Taxation, Recovery, and Defense by Dr. H. Dewey Anderson. It lays bare the elements of our national tax jumble. It considers the interrelated and cumulative operation of federal, state, and local taxes, thereby avoiding the distortion of emphasis which inevitably creeps into discussions of individual tax laws or tax proposals. It studies the interaction of tax policies upon concentration of economic power.

Is there a tax pattern or is the aggregate of taxes a haphazard result of historical pressures? In what ways do taxes tend substantially to aggravate the problems caused by concentration of economic power? Which taxes galvanize sterile savings into action and stimulate employment of men and machines? Which absorb the purchasing power of the poor, thereby throttling precisely the mass market which is necessary to sustain mass production and full employment? These are some of the vital questions placed under the spotlight of penetrating scrutiny in this monograph.

The Temporary National Economic Committee was singularly fortunate in securing the services of Dr. Anderson. He is not only the author of a volume entitled Our California State Taxes which has attracted widespread interest and attention, but for many years previously had been in touch with tax and budget matters, both as a member of the California legislature, financial adviser to the governor of California, and as State Relief Administrator. At a considerable personal sacrifice he accepted this invitation to do the highly necessary and difficult job of making this study. He has brought to the heatedly controversial field of taxes, in addition to his training and experience, an incisiveness of thought, an objectivity of point of view, and an indefatigable energy which have inspired the entire research staff of the Committee.

Several reviewers have given generously of their time and effort to the reading and criticism of this study, especially Dr. Gerhard Colm, Principal Economic Analyst, Bureau of the Budget, and Dr. Harold Groves, Professor of Public Finance, University of Wisconsin. Their helpful suggestions and kindly criticisms are hereby gratefully acknowledged.

They bear, of course, no responsibility for any part of the study.

Respectfully submitted.

Theodore J. Kreps,
Economic Adviser, Temporary National Economic Committee.

October 11, 1940.

PREFACE

This study presents facts and conclusions concerning Taxation, Recovery, and Defense arranged in four sections:

Dynamics of The Economy: The problems of the economy to whose solution the tax system should contribute; and, modern tax theories and our economic problems.

The Needs of Government: An analysis of Government expenditures.

The American Revenue System.

The Social-Economic Effects of the Revenue System.

This design seeks to fix the place of taxation in the economy, in terms of the problems of idle men, idle machines, and idle capital, upon which tax policy and the revenue system have recognizable effects.

Many of the statistics presented are drawn from original official sources, and are offered the reader as the essential bases for sound thinking. Competent authorities have been consulted, and our findings constantly checked against their studies. Realizing the lack of "reader interest" in the usual tax study, an effort has been made to enliven the text by providing suitable graphic illustrations.

This monograph is one of a series on taxation prepared for the Temporary National Economic Committee in its study of the concentration of economic power in the United States. It is the basic study of the series, seeking to present a comprehensive summary of the place of taxation in our economy. It does not duplicate the methods, treatment, or findings of the other monographs, each of which treats in some detail particular aspects of our tax problems. Together, this series offers the interested reader a rather substantial body of information on the problems of taxation and economic development. These other studies are:

Concentration and Composition of Individual Incomes, by Adolph J. Goldenthal.

Financial Characteristics of American Manufacturing Corporations, by Charles L. Merwin, Jr.

Taxation of Corporate Enterprise, by Clifford J. Hynning.

Who Pays Taxes? the Allocation of Federal, State, and Local Taxes to Consumers' Income Brackets, by Gerhard Colm and Helen Tarasov.

Industrial Reemployment Plans, by Arthur J. Dahlberg.

Taken by itself, the present volume will have served its purpose if it has assembled for convenient use the essential data needed to understand the status of the revenue system, posing fundamental problems which tax policy can help to solve, and suggesting the more adequate approaches to their solution.

The author has had the able assistance of Jane Greverus, who has collaborated on the research from its beginning. Philip Blaisdell has

contributed much to the solution of especially difficult economic problems. Robert Keysmith made the excellent illustrations used in the text, and Dorothy Wallace prepared the manuscript.

This study has been critically reviewed by Dr. Gerhard Colm of the Fiscal Division, Bureau of the Budget and Dr. Harold M. Groves, professor of finance at the University of Wisconsin, who have offered many suggestions which have markedly improved the monograph. They are not to be held responsible, however, for its errors of fact or judgment, which are the author's alone.

This monograph has also been reviewed by Mr. Ellsworth Alvord for the Business Advisory Council of the Department of Commerce. The criticisms offered were unfortunately not in publishable form, but have been taken into account in all questions of fact. Mr. Alvord's viewpoint and mine were in some instances so fundamentally divergent that an acceptance of his position would have required an abandonment of my own, which, in view of the facts presented, seemed unwarranted.

Manifestly, a work of this kind, written under pressure and prepared in 7 months' time, is not the carefully revised and well-organized product which might have resulted from longer deliberation. The work suffers from this condition, yet its information was sufficiently important to the deliberations of the committee to require publication at this time. The figures and computations used have been double-checked mechanically to insure accuracy, and it is believed that a body of substantial facts has been assembled from which suitable inferences have been made.

DEWEY ANDERSON.

WASHINGTON, D. C., *September, 1940.*

PART I

THE DYNAMICS OF OUR ECONOMY

THE PROBLEMS OF THE ECONOMY TO WHOSE SOLUTION THE TAX SYSTEM SHOULD CONTRIBUTE

MODERN TAX THEORIES AND OUR ECONOMIC PROBLEMS

THE DYNAMICS OF OUR ECONOMY

The tax system now operating in the United States is the result of the pressures of political, social, and economic groups, each seeking its own advantage, often at the expense of the others and frequently with little regard for the common good.

Economists recognize the tax system as an important factor in fiscal policy and economic recovery. Politicians use particular tax proposals to satisfy their constituents. Managers and owners of business enterprise, seeking profits, urge reduction of their taxes and curtailment of Government expenditures to prevent the continued regulation of business activities. The people generally recognize the increasingly important role which Government plays in their daily lives, and are disquieted by the fear that it is costing too much and that a day of reckoning will come.

These various attitudes indicate our national understanding of the relationships of taxation to the fundamental economic problems which have been piling up for the past several decades, and which have resulted in an accumulation of idle men, machines, and capital.

These fundamental problems are the living substances of social controversy. In their satisfactory solution lies the assurance of future wellbeing and growth for our citizens, and the stability of our economic life. Tax theory and tax policy must be considered as they affect them, for only a consideration of current social-economic problems will indicate present inadequacies in the tax system and their proper correctives.

In appendix A is analyzed the structure of the American economy within which the tax system operates, and to whose prosperity it should be made to contribute. The analysis covers the productive and distributive mechanism and the organization of our economic activities. It gives necessary information on national wealth, the wealth of States, population and labor force, national income and income received by the various income levels of the population, the expenditure patterns of the American people, the organization of the business community, and the role of large-scale enterprise in economic life. Such data are fundamental in any consideration of the dynamics of our economy, for it is out of the existing structure that present-day problems arise.

In a word, the fiscal policy and tax system of the Nation should evolve out of its economic and social requirements, and not be superimposed upon them.

THE PROBLEMS OF OUR ECONOMY

In the present century, the American economy has fast approached a maturity expressed in the private ownership and use of our land and resources; the slackening in the rate of population increase; the development of cities, trading, and industrial centers; the growth of industrial power and its concentration in the hands of a relatively few owners; the dependence of 90 out of every 100 nonfarm families on a job for their livelihood; the completion of the rail and road transportation system; the extension of telephone, telegraph, and radio communication to even the most remote sections of the country; the construction of main electric power lines and the extension of service to all except remote rural areas; the rise of national income to hitherto unknown heights, calculated in terms either of total income or income per capita of population; and the formation of vast capital, resulting largely from high profits and speculative gains of financiers and industrialists exploiting a virgin economic territory.

Few Americans were willing or able to discern certain disquieting signs of the trouble which broke out with catastrophic effects in 1929. In retrospect it is possible to list these signs as follows:

1. The physical frontier had been reached; its major resources had passed into private hands, and, along certain lines and in some areas, had been developed to capacity, or to the utmost economic advantage. This resulted in relatively high capitalization and costs which excluded most people from ownership, and definitely ended the pioneer period.

2. Franchises, leases, and patent rights covering valuable natural resources or industrial processes had become almost exclusively the property of business concerns whose ownership was in relatively few hands.

3. Technology was so highly developed that the range and quantity of consumers' goods exceeded the purchasing power of the buying public.

4. The distribution of income had become so uneven that even in 1929 over a third of the population had too little money to buy a full complement of the barest necessities of life.

5. The unequal distribution of income resulted, by about 1915, in a surplus of funds available for investment. This surplus continued to pile up, which meant a concentration of excess purchasing power in relatively few hands, and the production of more consumers' goods than could be sold at a profit.

6. All during the prosperous 1920's the national income increased rapidly, primarily from two causes: Construction to meet the housing needs of a greatly increased population and the expanded use of the automobile. But by 1926 the housing needs of those able to pay for housing were largely met, and the effects of a declining rate of population growth were beginning to show

themselves. Likewise, new-car demand depended upon used-car sales, and purchasing power was not sufficiently diffused to continue this process uninterruptedly.

7. Technology, one of the several influences affecting foreign trade, spread to foreign countries, so that they were able to make goods which they had formerly imported from us. This was a major factor in the decline of our foreign trade.

8. As inventories accumulated during the 1920's, various devices were used to stimulate buying. Installment selling was extended rapidly, and became an appreciable factor in current domestic trade.

9. Yet inventories continued to accumulate, resulting in sharp drops in wholesale prices in 1928.

10. Agricultural production was abnormally expanded during the World War, and after the war the relatively inelastic domestic demand failed to move agricultural products. The slackening in rate of population increase also had its effect (which will become more noticeable as time passes). Consequently, agriculture suffered a price collapse in 1926 from which it has never recovered. Agricultural distress, much of it long-term in nature, radiates through the whole economy. On the other hand, one major cause of low farm prices is the low purchasing power of urban groups.

Are these the "growing pains" of a dynamic society in which prosperity and depression have alternated since colonial days, or are they evidence of fundamental changes? Economists are ranged in opposing camps interpreting what has occurred and what lies ahead according to their different schools of thought. But they are fairly well agreed on the facts, and none can gainsay that new factors and emphasis set this period apart from any that has preceded it.

Recovery from previous depressions has required the investment of new capital, the employment of more workers, and the production of more goods. But by 1940, although industrial production had reached its 1929 peak,[1] 20 percent fewer workers were employed. Instead of 429,000 unemployed as in 1929, the most conservative estimate in September 1939 was 8,190,000.[2]

The current national income available for distribution in 1938 was 21.4 percent less than in 1929 (table 14, appendix A, p. 49); the per capita income was 17.9 percent below that year (table 5, appendix A, p. 17); while the income from private production was 30.9 percent less than in 1929 (table 15, appendix A, p. 53). There were 9,559,000 more persons and 4,462,937 more families in the United States in 1940 than in 1930.

Since production has not advanced beyond 1929 levels, and employment and the national income are still, after 10 years, far below normal, the changes of the past 20 years appear to be fundamental. The Harvard-Tufts economists summarized the situation as follows:

> Had the national income grown between 1929 and 1937 at the same average annual rate as it grew between 1920 and 1929, it would have been nearly 40 percent larger in 1937 than in 1929. Instead, it was 15 percent smaller! If any

[1] Federal Reserve Board index of production.
[2] National Industrial Conference Board, Studies in Enterprise and Social Progress, New York, 1939, p. 42.

demonstration were needed that a basic change has come over the structure of the American economy, surely this is conclusive proof.[3]

It may be that, as some economists contend, the national economy is now on the verge of an "intensive" development as contrasted with the "extensive" growth up to 1930 (in some respects an arbitrary division point), and that the advent of new industries will carry the national income to higher levels than ever before. On the other hand, it may be that the forces at work seriously limit such chances, and make it necessary to adopt other remedies to reestablish full employment and widespread purchasing power. Or recovery may be achieved temporarily through a preparedness and military program which will skyrocket national income and eliminate unemployment.

It is fairly well recognized, however, that sustained recovery is possible under the system of private enterprise only if:

1. Investment approximately equals the volume of savings.
2. Total consumption is sufficient to remove from the market currently produced consumers' goods.
3. The incomes of large economic groups, such as farmers and wage earners, show an upward trend, with small fluctuations.
4. The policies of Government (regulatory and tax) are economically sound in view of the long-and short-run circumstances of economic life.[4]

Fiscal policy is involved in all four requirements of economic recovery, and the tax system exerts either a beneficial or harmful effect upon them. In fact, economists, businessmen, and public officials are becoming increasingly conscious that the tax system should be used to facilitate recovery. But certain basic economic problems must be analyzed if such use of taxation is to be effective.

IDLE MEN AND MACHINES

Expert testimony before the Temporary National Economic Committee brought out the following startling economic losses sustained in the United States from 1929 to 1938:

Man-years of employment lost	43, 500, 000
Salaries and wages lost in nonagricultural occupations	$119, 000, 000, 000
Dividends lost	$20, 000, 000, 000
Gross farm income lost	$38, 000, 000, 000
Lost national income (adjusted for price changes)	[5] $133, 000, 000, 000

The Bureau of Labor Statistics estimates of total man-years of employment lost since 1929 are given in table 1. These data are compiled from monthly averages and only approximate the actual annual conditions. They understate the facts, as they assume that the total number of people available for work in the years since 1929 are identical with the number in that year, whereas there were approximately 6,000,000 more gainful workers in 1938 than in 1929. Since the table as prepared ignores this population increase, the 43,500,000 man-years lost since 1929 indicate only the loss in employment of the labor force of 1929. The loss in work-years, considering the increased popula-

[3] An Economic Program for American Democracy, by seven Harvard and Tufts economists: Richard V. Gilbert; George H. Hildebrand, Jr.; Arthur W. Stuart; Maxine Yaple Sweezy; Paul M. Sweezy; Lorie Tarshis; and John D. Wilson; Vanguard Press, New York, 1938, p. 23.

[4] These conditions, stated somewhat differently, appear in Lewis H. Kimmel's Recent Trends in the Cost of Government, National Industrial Conference Board Bulletin, vol. I, No. 7, August 31, 1939, p. 72.

[5] Hearings before the Temporary National Economic Committee, 75th Cong., 1st sess., pt. 1, pp. 196-197.

tion, is estimated at 80,000,000.[6] But all such data are of doubtful value because of the assumptions under which they are collected and tabulated. The man-year or work-year has been considerably altered, and the sample data are not sufficiently refined to permit conclusive generalizations.

TABLE 1.—*Employment lost in depression, nonagricultural, 1929–38*

Year	Man-years lost from 1929	Index number (1929=100)	Year	Man-years lost from 1929	Index number (1929=100)
1929		100.0	1935	4,659,000	87.1
1930	2,216,000	93.9	1936	2,940,000	91.9
1931	5,271,000	85.4	1937	1,584,000	95.6
1932	8,480,000	76.5	1938	[1] 3,988,000	89.0
1933	8,415,000	76.7			
1934	5,882,000	83.7	Total	43,435,000	

[1] Estimated.

Source: Adapted from "Exhibit 9," Hearings before the Temporary National Economic Committee, Part. 1, p. 196.

Table 2 displays certain measures of changing economic conditions. The trend is shown by index numbers based on the year 1899 as 100. Manufacturing production in 1929 was 211 percent greater than in 1899. But this enormous increase was obtained with only a 59-percent gain in man-hours of employment. The result was that the man-hours required per unit of product was 49 percent less than in 1899. Actual output per man-hour had increased 95 percent by 1929. These were the conditions during 30 years of a rapidly expanding economy.

TABLE 2.—*Production, man-hours, man-hours per unit of production, and output per man-hour in all manufacturing industries, selected years, 1899–1938*

[Index numbers, 1899=100]

Year	Manufacturing production	Man-hours	Man-hours per unit of production	Output per man-hour	Year	Manufacturing production	Man-hours	Man-hours per unit of production	Output per man-hour
1899	100	100	100	100	1927	274	149	54	184
1904	122	111	91	110	1929	311	159	51	195
1909	159	132	83	121	1931	206	101	49	203
1914	170	137	80	124	1933	191	86	45	223
1919	214	169	79	127	1935	227	102	45	222
1921	169	118	70	143	1937	275	127	46	216
1923	263	161	61	163	1938	212	97	46	219
1925	274	151	55	181					

Source: National Industrial Conference Board, Inc., New York.

Since 1929 manufacturing production has declined. In 1938 total production was considerably below 1929, but still 112 percent above 1899. Total man-hours of employment, however, were 3 percent below 1899. The efficiency of labor increased considerably after 1929. The index of man-hours per unit of product in 1938 was 54 percent below 1899; in 1929, 49 percent below. Output per man-hour was 119 percent greater in 1938 than in 1899, as compared with 95 percent

[6] National Industrial Conference Board, Enterprise and Social Progress, New York, 1939, p. 47.

greater in 1929. Thus, during a period of prolonged depression, the productivity of labor has increased. Technology has made it possible to increase production with fewer workers and shorter hours, either in prosperity or depression.

The accelerated pace in technological innovations during depression has a number of causes, such as the relative increase of wages as an item in production costs, the retention of the most skilled workers, the rapid concentration of industry into large units through mergers and bankruptcies of smaller concerns, and the availability of cheap capital to those large corporations whose industrial future promises net returns regardless of good or bad times.[7]

The usual conception of a healthy American economy is one in which production, number of workers employed, and output per man-hour all increase in successive years. But these conditions have not held true since the turn of the century, when the over-all effects of major technological advances became noticeable.

The National Research Project of the Works Progress Administration published a series of important studies seeking to determine the long-run effects of technology.[8] The distinguishable patterns that appear in 54 manufacturing industries studied, which employed approximately half of all industrial workers in 1929, have been segregated in table 3. The predominant pattern affecting 24 of the 54 industries, and 25 percent of all industrial workers, showed a decrease in production, number of workers employed, and number of man-hours worked from 1929 to 1936, but an increase in output per man-hour. This is the characteristic, if not the typical, effect of general economic conditions and advancing technology.

TABLE 3.—*Production, employment, and productivity in 54 manufacturing industries, loss (−) or gain (+) in 1936 compared with 1929*

Number of industries	Wage earners, 1929		Production		Employment		Man-hours		Output per man-hour	
	Number	Percent of all wage earners in manufacture	Loss (−)	Gain (+)	Loss (−)	Gain (+)	Loss (−)	Gain (+)	Loss (−)	Gain (+)
24	2,208,544	24.99	(−)		(−)		(−)			(+)
9	552,566	6.25		(+)		(+)	(−)			(+)
8	473,008	5.35		(+)	(−)		(−)			(+)
6	203,004	2.30	(−)		(−)		(−)		(−)	
5	749,922	8.48	(−)			(+)	(−)			(+)
2	51,206	.58		(+)		(+)		(+)		(+)
Total (54)	4,238,250	47.95	−35	+19	−28	+16	−52	+2	−6	+48

Source: H. Dewey Anderson and Percy E. Davidson, Occupational Trends, Stanford University Press, Stanford University, 1940, p. 28.

Over half the industries studied, however, exhibited different patterns. Nine showed an increase in output, number of workers employed, and output per man-hour, but a decline in the total amount

[7] See E. D. Kennedy, Dividends to Pay, Reynal and Hitchcock, New York, 1939, for a discussion of the profits of large corporations in prosperity and depression. These giants are in an unusually good position to take advantage of low interest rates to install labor-saving machinery, thereby reducing their unit labor costs.

[8] David Weintraub and Irving Kaplan, National Research Project, Works Progress Administration, Washington, 1937–39.

of working time. Eight of the industries increased total production from 1929 to 1936, but showed declines in number of workers employed and in total working time and an increase in output per man-hour. Six "sick" industries, suffering from obsolescence, break-down in capital structure, etc., showed declines in all four factors. In five, production declined, total workers employed increased, total working time dropped, and man-hour productivity increased.

Of the 54 sampled industries, 35 had increased and 19 decreased their output from the prosperous year 1929, 38 employed more, and 16 fewer employees; 52 had decreased the total time worked, while 2 had increased it; 6 industries failed to make technological gains, while 48 increased their output per man-hour of employment.

None of these data tells what has happened to the wage bill of industry, but facts recently assembled and reported in the Monthly Labor Review give pertinent information as follows:

> In all manufacturing industries combined, pay rolls, as reported to the Bureau of the Census, increased 5.5 percent between 1923 and 1929, and total production, as estimated by the National Bureau of Economic Research, increased 26.3 percent. Labor cost per unit of output therefore decreased about 16.5 percent. * * * During the half-dozen years before 1929 the marked reductions in labor cost per unit produced did not find expression in a comparable rise in wages, and at the same time these reductions in labor cost were not accompanied by significant advantages to consumers through price changes. During the years immediately following 1929, the extreme fluctuations in business conditions must be considered in detail for an understanding of the apparently erratic nature of the changes in unit labor cost. By 1935, however, there were reductions even below the levels of 1929 in all of the 25 industries.[9]

This is the carefully considered judgment of competent economists seeking to evaluate conditions. In effect it states that in the field of manufacture, upon which a fourth of the gainfully employed depend for their livelihood, and which produces more than a fourth of the total national income, the savings in unit-production costs were not distributed proportionately to wage earners and consumers but were siphoned off by capital and salaried claimants. (See Spurgeon Bell, *Prices, Productivity, and Wages.*) These conditions, prevailing during the prosperous 1920's, were accentuated after 1930. They are a major hindrance to recovery and economic stability, for they concentrate the gains of technology in a few favored hands, limit consumers' purchasing power, and, if prolonged, will cause dangerous economic crises, by continuing the uneven distribution of income in the face of a relatively stagnant manufacturing economy.

The concentration of business control in the hands of a few giant corporations, which own most of the assets, produce most of the goods, and employ most of the workers, complicates the problems of unemployment, technological advance, and the distribution of income. Tables 4 and 5 show corporation earnings during prosperity, and tables 6 and 7 show similar figures during depression. These figures are taken from corporation income reports to the Federal Government. They are final figures, after the highly skilled tax lawyers and accountants of the corporations have made deductions from gross income for such purposes as depreciation and depletion, and after high salaries have been allowed the administrative personnel.

[9] Bureau of Labor Statistics, Monthly Labor Review, Washington, December 1939, pp. 1403–1404.

TABLE 4.—*Corporation earnings during prosperity—I*

[Dollar figures in millions]

Year	All active corporations				Corporations having net income			Corporations having deficits		
	Number	Percent increase	Net income: Amount	Net income: Percent increase	Number	Percent of active corporations	Net income	Number	Percent of active corporations	Net income
1925	[1] 385, 034		$7, 621		252, 334	65. 5	$9, 584	[1] 132, 700	34. 5	−$1, 963
1926	[1] 407, 534	5. 8	7, 505	−1. 5	258, 134	63. 3	9, 673	[1] 149, 400	36. 7	−2, 169
1927	425, 675	4. 5	6, 510	−13. 3	259, 849	61. 0	8, 982	165, 826	39. 0	−2, 472
1928	443, 611	4. 2	8, 227	26. 4	268, 783	60. 6	10, 618	174, 828	39. 4	−2, 391
1929	456, 021	2. 8	8, 740	6. 2	269, 430	59. 1	11, 654	186, 591	40. 9	−2, 914

[1] Estimated by E. D. Kennedy in Dividends to Pay, Reynal and Hitchcock, New York, 1939, appendix A. Government figures include inactive corporations which have been excluded from these estimates.

Source: Adapted largely from U. S. Treasury Department, Statistics of Income for 1929, table 24, p. 365.

TABLE 5.—*Corporation earnings during prosperity—II*

[Dollar figures in millions]

Year	All active corporations				Corporations with net income of $1,000,000 and over				All other active corporations			
	Number	Percent increase	Net income: Amount	Net income: Percent increase	Number	Percent of total	Net income	Percent of total	Number	Percent of total	Net income	Percent of total
1925	[1] 385, 034		$7, 621		1, 113	0. 3	$4, 974	65. 3	[1] 383, 921	99. 7	$2, 647	34. 7
1926	[1] 407, 534	5. 8	7, 505	−1. 5	1, 097	. 3	5, 238	69. 8	[1] 406, 437	99. 7	2, 267	30. 2
1927	425, 675	4. 5	6, 510	−13. 3	1, 042	. 2	4, 639	71. 3	424, 633	99. 8	1, 871	28. 7
1928	443, 611	4. 2	8, 227	26. 4	1, 258	. 3	5, 930	72. 1	442, 353	99. 7	2, 297	27. 9
1929	456, 021	2. 8	8, 740	6. 2	1, 349	. 3	7, 003	80. 1	454, 672	99. 7	1, 737	19. 9

[1] Based on estimates of E. D. Kennedy, referred to in table 4.

Source: Adapted from E. D. Kennedy, Dividends to Pay, Reynal and Hitchcock, New York, 1939, pp. 7, 9; and U. S. Treasury Department, Statistics of Income for 1929, pp. 41, 42.

The number of corporations during the prosperous 1920's did not increase rapidly; the greatest gain in a single year was less than 5 percent. This is because the number liquidated almost cancels out the number of newly chartered corporations. This static condition is a manifestation of a matured economy, where the volume and range of goods increase largely as a result of the expansion of existing corporations rather than the development of new ones.

Net income reported during the prosperous era ranged from $6,510,000,000 in 1927 to $8,740,000,000 in 1929. Judged by corporation net income, even the 1920's were not uniformly prosperous, for income was lower in 1926 and 1927 than either 1925 or 1928. But all during the 1920's a majority of all corporations enjoyed net incomes. In 1929, for example, 59.1 percent of all corporations reported net incomes, while 40.9 percent reported losses. The net income of the 59.1 percent totaled $11,654,000,000. The net losses of the 40.9 percent totaled $2,914,000,000. Thus, in even the best of times a substantial proportion of all corporations were not in a healthy con-

dition, while a few very large corporations were enjoying enormous net earnings.

Tables 6 and 7 indicate that the number of corporations does not vary greatly in prosperity and depression. There is no such rate of retirement among corporations as among independent business ventures, partly because bankrupt corporations are customarily reorganized. The number of active business corporations in 1934 was 3 percent greater than in 1929, although the total number of business enterprises declined 10.8 percent (see p. 317). From 1931 to 1933 the corporations of the United States were operating in the red, showing net losses ranging from $1,551,000,000 in 1930 to $5,644,000,000 in 1932. By 1934 they had recovered sufficiently to record a net income of $94,000,000. But any such figures on total net income conceal the important fact that many corporations enjoy profits in good or bad times. In the worst year of the depression, 1932, the current profits of 18.3 percent of all corporations totaled $2,153,000,000. On the other hand, 81.7 percent of all corporations sustained reported losses of $7,797,000,000.

TABLE 6.—*Corporation earnings during depression—I*

[Dollar figures in millions]

Year	All active corporations				Corporations having net income			Corporations having deficits		
	Number	Percent increase	Net income		Number	Percent of active corporations	Net income	Number	Percent of active corporations	Net income
			Amount	Percent increase						
1930	463,036	....	$1,551	....	221,420	47.8	$6,429	241,616	52.2	−$4,878
1931	459,704	−0.7	[1] 3,288	−312.0	175,898	38.3	3,683	283,806	61.7	−6,971
1932	451,884	−1.7	[1] 5,644	−71.7	82,646	18.3	2,153	369,238	81.7	−7,797
1933	446,842	−1.1	[1] 2,547	54.9	109,786	24.6	2,986	337,056	75.4	−5,533
1934	469,804	5.1	94	103.7	145,101	30.9	4,275	324,703	69.1	−4,181

[1] Deficit.

Source: Adapted from U. S. Treasury Department, Statistics of Income, 1932, p. 48, and 1934, Part. 2, pp. 36–37.

TABLE 7.—*Corporation earnings during depression—II*

[Dollar figures in millions]

Year	All active corporations				Corporations with net income of $1,000,000 and over			All other active corporations		
	Number	Percent increase	Net income		Number	Percent of active corporations	Amount of net income	Number	Percent of active corporations	Amount of net income
			Amount	Percent increase						
1930	463,036	....	$1,551	....	736	0.2	$3,716	462,300	99.8	([1])2,165
1931	459,704	−0.7	[1] 3,288	−312.0	409	.1	2,060	459,295	99.9	([1])5,348
1932	451,884	−1.7	[1] 5,644	−71.7	284	.1	1,249	451,600	99.9	([1])6,893
1933	446,842	−1.1	[1] 2,547	54.9	387	.1	1,540	446,455	99.9	([1])4,087
1934	469,804	5.1	94	103.7	580	.1	2,081	469,224	99.9	([1])1,957

[1] Deficit.

Source: Adapted from arrangement of E. D. Kennedy, Dividends to Pay, 1939, Appendix C, and U. S. Treasury Department, Statistics of Income, 1932, p. 48, and 1934, Part. 2, pp. 36–37.

Table 7 shows that the giant corporations, with net incomes of a million dollars or more, were only 0.3 percent of all corporations in 1929, but made 80.1 percent of all corporate net income reported. In 1932, with over 80 percent of all corporations reporting net losses, a disproportionately large amount of all net income was earned by the giant corporations. In that year, corporations whose profits were a million or more were only 0.1 percent of all corporations, yet they enjoyed 80.9 percent of all corporate profits made. It is these giant corporations which account for the dominance of corporate enterprise in the economy, in terms of output, number of workers employed, income produced, and use of investment capital.

Furthermore, these large business enterprises are not widely owned, so that their favorable economic position actually accentuates the uneven distribution of incomes and purchasing power. Table 8 displays the approximate number of stockholders and amount of dividends received from corporations, principally on the basis of income-tax reports filed with the Treasury Department. In 1927 about 3,300,000 individual stockholders, or 2.8 percent of the population, received $4,300,000,000 in dividends, an average of $1,303. The range of dividend payments to individual stockholders was from about $5 to $15,000,000.

TABLE 8.—*Stockholders receiving dividends, and dividends received, 1927*

Class	Stock owners		Dividends received		Average dividend payments
	Number	Percent	Amount	Percent	
Net income over $5,000	516,000	15.6	$3,762,000,000	87.5	$7,291
Net income less than $5,000	484,000	14.7	493,000,000	11.5	1,019
Not filing income reports (estimated)	2,300,000	69.7	45,000,000	1.0	20
Total	[1] 3,300,000	100.0	4,300,000,000	100.0	1,303

[1] According to T. N. E. C. Monograph No. 9, there were about 9,000,000 stockholders in American corporate enterprise in 1938. The proportion of those receiving dividends is not known, but probably does not exceed the 1927 figure.

Source: Based on Joseph S. McCoy, "Sources of Prosperity," in American Bankers Association Journal, January 1930, vol. 22, p. 703.

The actual receivers of dividends fared unequally. Persons reporting net incomes of $5,000 or more were 15.6 percent of all stockholders, yet they received 87.5 percent of all dividends, in average amounts of $7,291. Persons reporting net incomes of less than $5,000 were 14.7 percent of all stockholders and received 11.5 percent of all dividends in average amounts of $1,019. There were also some 2,300,000 citizens who owned stock but whose total annual incomes were too small to require income-tax reports. They were 69.7 percent of all stockholders but they received only 1 percent of all dividends, in average amounts of $20.

These data show that ownership of corporations is not widely diffused, and that the distribution of corporate dividends tends toward the further concentration of wealth and income, rather than its diffusion among the mass of citizens. Because of the crucial importance of corporations in the business system of this country, this fact is extremely significant in the formation of social policy to achieve economic recovery and stability.

To the extent that large-scale businesses are best able to take advantage of labor saving changes, their failure to pass on a proportionate share of the benefits of technology in lower prices and larger wage funds has become a major cause of unemployment. (It should be pointed out here, however, that the pressure for higher wages generated out of this situation is likely to result in still further mechanization.)[10] In any event, much secular unemployment originates in and continues because of developments in corporate business enterprise.

Figures on unemployment have never been very satisfactory, but since the installation of various relief and public-works programs, more adequate data are available. In table 9, chart 1, the months representing the usual seasonal peaks of employment and unemployment are shown for the years 1936–39. In January 1939 the total unemployed labor force exceeded that of January 1936, despite the substantial economic recovery attained in that period. Unemployment in June 1939 exceeded by a still greater margin that of June 1936. In 1937, the most prosperous year since 1929, unemployment declined approximately 14 percent. While this is desirable, it by no means solves the unemployment problem, although it does indicate that substantial recovery can be effected without greatly reducing the number of unemployed. The figures for January 1938, reflecting the recession in the latter part of 1937, reveal an increase in unemployment of 21.4 percent over the previous January, while the June figure rose 48.1 percent over the previous June.

TABLE 9.—*Estimated number of unemployed in the United States, and number employed on W. P. A. projects, 1936–39*

[Absolute figures in thousands]

Classification	January				June			
	1936	1937	1938	1939	1936	1937	1938	1939
Number persons unemployed	10, 940	9, 520	11, 560	11, 900	9, 890	8, 530	12, 630	11, 384
Percentage increase		−13. 0	21. 4	2. 9		−13. 8	48. 1	−9 9
Number on W. P. A. projects	2, 926	2, 138	1, 901	2, 895	2, 256	1, 821	2, 767	2, 421
Percentage increase		−26. 9	−11. 1	52. 3		−19. 3	51. 9	−12. 5
Percentage of unemployed	26. 7	22. 5	16. 4	24. 3	22. 8	21. 3	21. 9	21. 3

Source: Corrington Gill, Wasted Manpower, W. W. Norton, New York, 1939, appendix, pp. 291–293 Figures for June 1939 secured from W. P. A.

In the face of the dire circumstances of approximately 10,000,000 unemployed, public policy has seen fit to provide funds to employ only a minor fraction of their number. In no period since 1936 has there been a public-works program which would provide work for more than a fourth of the employable unemployed. The unemployed are forced to depend upon the aid of relatives and friends, their accumulated resources, and principally upon private charity and public relief or public works.

Furthermore, public policy is capricious, and has varied with the years. Congress, unduly optimistic at the signs of better economic conditions in 1937, decided that there was no need to continue large-scale spending for the P. W. A. and W. P. A. Then, when the recovery

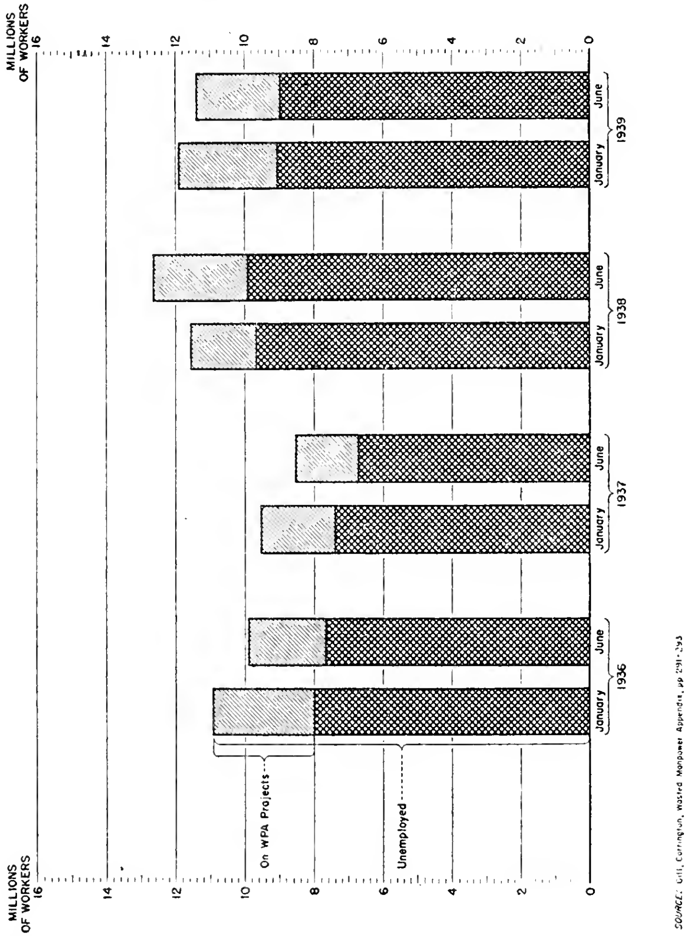
[10] See exhibits 2529-b and 2530 hearings before the Temporary National Economic Committee, 76th Cong., 3d sess., Part 30.

collapsed in the fall of 1937, the curtailed allotment for W. P. A. provided work-relief wages for only 16.4 percent of the unemployed. The greatly reduced consumers' purchasing power resulted in an abrupt shift in Government policy. The allotment of W. P. A. jobs was increased in 1938 in an attempt to halt the downward sweep of a recession that had many possibilities of becoming another depression. The attempt was partially successful, again demonstrating that

CHART 1

ESTIMATED NUMBER OF UNEMPLOYED AND NUMBER EMPLOYED BY WPA

UNITED STATES, 1936-1939



Government spending through W. P. A. alleviated distress and at the same time stimulated the economy.

Much of the apparently chronic unemployment is concentrated in the heavy industries manufacturing durable goods. Table 10 shows that from 1929 to 1938 the number of workers in durable-goods industries, which employed approximately half of all manufacturing workers in 1929, declined 1,114,000, or 27.2 percent. During the recovery of 1937, the total number of workers in durable-goods industries was only slightly less than in 1929, indicating that these industries can respond rapidly to improved economic conditions. This recovery, however, did not provide places for nearly 4,000,000 new workers added to the labor force.

TABLE 10.—*Average annual employment in durable and nondurable goods, 1929–38*

Year	Durable goods			Nondurable goods		
	Number of employees	Percent of all in manufacturing employment	Percentage increase	Number of employees	Percent of all in manufacturing employment	Percentage increase
1929	4,090,000	48.9		4,278,900	51.1	
1933	2,215,000	38.3	−45.8	3,575,000	61.7	−16.5
1937	4,005,000	48.0	80.8	4,348,000	52.0	21.6
1938	2,976,000	43.4	−25.7	3,377,000	56.6	−10.8
1938 over 1929	−1,114,000		−27.2	−401,900		−9.4

Source: Corrington Gill, Wasted Manpower, W. W. Norton, New York, 1939, p. 37.

Nondurable goods industries were not so severely affected by the depression, for employment in 1938 was only 9.4 percent below 1929 levels. In fact, the 1937 peak of employment in these industries was actually above 1929.

The location of focal points of unemployment in manufacturing industry is shown in table 11, which gives indexes of employment, with 1923–25 as 100.0. The year 1929 was not uniformly prosperous for all manufacture. Stoves, locomotives, lumber, stone, clay, and glass, among the durable goods industries, were depressed in 1929; while in nondurable goods, the leather products group employed fewer workers in 1929 than in 1923–25.

In 1933 all except the food products group were below the 1923–25 level. The locomotive industry suffered most, employing only 12 percent of its 1923–25 labor force. In the recovery of 1937, five groups among the durable goods industries employed more workers than in 1929, but five failed to recover to that level of employment. The nondurable goods industries fared much better, since they respond to the amount of purchasing power available in the hands of wage earners and relief clients.

TABLE 11.—*Effect of depression and recovery on employment in specific industries*

[1923–1925=100]

Industry	Average annual employment			
	1929	1933	1937	1938
Durable goods:				
Iron and steel group	103	66	111	83
Blast furnaces and steelworks	103	71	120	88
Stoves	99	64	102	74
Machinery group	126	61	124	91
Agricultural implements	146	43	167	121
Machine tools	167	45	159	123
Transportation equipment group	104	55	118	73
Automobiles	111	61	128	73
Locomotives	57	12	48	26
Lumber products group	95	50	77	63
Stone, clay, and glass group	94	49	81	67
Nondurable goods:				
Textile products group	105	91	109	93
Leather products group	99	87	98	90
Food products group	111	100	129	122
Paper and printing group	111	87	112	105
Chemicals and petroleum products group	116	97	125	111

Source: Corrington Gill, Wasted Manpower, W. W. Norton, New York, 1939, pp. 37–38.

By 1939 the economy had not fully recovered from the recession which occurred late in 1937. The employment indexes for 1938 indicate that the durable-goods industries, large users of labor, sharply curtailed employment, and employment also dropped in the non-durable-goods industries.

The continuance of unemployment on a large scale is not only a major hindrance to economic recovery, but has a direct bearing on fiscal policy, government expenditures, and taxation. State budgets are swollen to high levels, and are increasingly difficult to balance, either because of limited tax recources or because of public resistance to increased taxes. General government costs have risen, but the difference, in a substantial number of States, between balanced and unbalanced budgets is the newly added enormous cost of social welfare and unemployment relief. Unemployment is both a cause and a result of depression. Labor-saving technology resulting in unemployment may be a factor in creating a depression. Also, the dismissal of workers by industries experiencing reduced sales is a result of depression.

Not only does unemployment result in serious economic dislocation and reduced income, but it greatly increases the cost of maintaining government. During the year 1935–36, for example, 4,487,100 families received relief. They were 15.3 percent of all families in the United States, and obtained 7.0 percent of all income paid out that year.[11] In 1938, of a total Federal expenditure of $7,691,000,000, 28.4 percent, or $2,182,000,000, was spent for relief, welfare, and social security.

A substantial number of our people, either because of chronic unemployment or intermittent work and low wages, have too little income to pay taxes, without denying necessities to themselves and their dependents. Yet a considerable portion of their all-too-meager incomes is taken by regressive consumers' levies of one kind or another.[12]

Table 12 gives the share of the national income which each tenth of the population received and expended for various items of the consumer's budget. The lowest tenth of all consumer units in 1935–36 had an income under $340 a year; the highest tenth received $2,600 or more. Six-tenths with incomes less than $1,275 must borrow to live, and in such consumer units there is no surplus income to be tapped by burdensome tax programs, for these people usually do not receive a full complement of the necessities of life. Above $1,275, savings become possible, on the average, and among these four-tenths is found almost three-fourths of total income received. In this extremely uneven distribution of income are rooted many of the problems of prolonged depression and its aftermath of chronic mass unemployment and depressed business conditions.

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[11] National Resources Committee, Consumer Incomes in the United States, August 1938, Washington, p. 21, table 4.

[12] See pt. IV.

TABLE 12.—*Share of each tenth of nation's consumer units*[1] *in aggregate outlay for consumption, gifts and personal taxes, and savings,*[2] *1935–36*

Proportion of families and single individuals	Income range	Aggregate income		Aggregate outlay (in millions)			Percentage of aggregate outlay		
		Amount (in millions)	Per cent	Current consumption	Gifts and personal taxes[3]	Savings	Current consumption	Gifts and personal taxes[3]	Savings
Highest tenth	$2,600 and over	$21,452	36.2	$13,523	$1,644	$6,285	26.9	53.6	105.1
Ninth	$1,925 to $2,600	8,593	14.5	7,460	376	757	14.9	12.2	12.7
Eighth	$1,540 to $1,925	6,815	11.5	6,201	278	336	12.3	9.1	5.6
Seventh	$1,275 to $1,540	5,511	9.3	5,165	223	123	10.3	7.3	2.1
Sixth	$1,070 to $1,275	4,444	7.5	4,343	160	−59	8.6	5.2	−1.0
Fifth	$880 to $1,070	3,911	6.6	3,916	136	−141	7.8	4.4	−2.3
Fourth	$720 to $880	3,259	5.5	3,333	109	−183	6.6	3.6	−3.1
Third	$545 to $720	2,548	4.3	2,740	77	−269	5.5	2.5	−4.5
Second	$340 to $515	1,719	2.9	1,999	40	−320	4.0	1.3	−5.4
Lowest tenth	Under $340	1,007	1.7	1,534	24	−551	3.1	.8	−9.2
Total		59,259	100.0	50,214	3,067	5,978	100.0	100.0	100.0

[1] Includes all families and single individuals, but excludes residents in institutional groups.
[2] Items included in each category are explained in Consumer Expenditures in the United States, pp. 93–98.
[3] Taxes shown here include only personal income taxes, poll taxes, and certain personal property taxes.

Source: National Resources Committee, Consumer Expenditures in the United States, Washington, 1939, p. 51

Idle men mean wasted manpower, and a consequent failure to utilize fully the most important single source of production. Idle manpower means reduced incomes and a loss of capacity to buy. There is much talk these days of a return to full employment, which is generally taken to mean a return to 1929 levels of employment, and also of income. But population continues to grow, and the number of persons available for labor increases by approximately 600,000 per year. The levels of 1929, therefore, will not provide full employment, nor will the income of that year provide adequately for the present or future population. Furthermore, 1929 levels of consumption were not satisfactory, for even in that prosperous year, almost three fourths of the people lacked sufficient income to buy conveniences and luxuries, and nearly one-fourth of all American families, with incomes of less than $1,000, were unable to buy any but the barest necessities of life.[13]

Yet in 1929 per capita income reached its peak, averaging $654 per person. There are too many incalculable factors, such as increasing emphasis on social goods, changing prices, etc., to permit a statement of the income needed now and in the future to equal 1929 levels of economic well-being, but a very rough estimate of the total can be had by multiplying the per capita income of 1929 by the estimated population of the future, with the following results:

Year:	*National income*	Year—Continued.	*National income*
1929	$79,498,000,000	1960	$96,538,000,000
1940	86,740,000,000	1970	99,266,000,000
1950	92,353,000,000	1980	100,472,000,000

[13] Brookings Institution, America's Capacity to Consume, Washington, 1934, pp. 53–54.

A mere rise in the national income does not erase the problems of depression. Within certain limits, it is not so much the size of the national income as it is its distribution among the consumers who make use of it that is important. In a prosperous economy, the national income must be large enough and be so distributed as to continually make use of all the Nation's resources—manpower, capital, and wealth.

IDLE CAPITAL

The Brookings Institution studies on the formation of capital concluded that saving of money does not in itself create a demand for capital goods; that expansion in production is possible only if the market for goods is expanding, and an expanding market depends upon increased consumption demand.[14]

Table 13 offers pertinent data showing funds in banks and their disposition. It is significant that surplus was available above the sums needed for investment in both prosperous and depressed years since 1923. The average surplus available from 1923 to 1929 was 6.5 percent, and from 1930 to 1933, 6.8 percent.[15] Since 1933 the percentage of surplus has continued to mount, until in 1938 it was more than 18 percent of total deposits and net capital funds. The peak year in volume of bank deposits and capital funds was 1930, when available capital totaled $63,000,000,000, of which 27.8 percent was invested in long-term paper, and 64.4 percent was in short-term loans, while 7.8 percent was idle. By 1938 the volume of bank deposits and capital funds had dropped to $57,900,000,000, of which 45.4 percent was invested in long-term paper, 36.5 percent in short-term loans, and 18.1 percent was idle.

TABLE 13.—*Bank deposits and capital funds and their use for investments, loans, and surplus, 1923–38*

[Dollar figures in billions, as of June 30]

Year	Total bank deposits and capital funds		Investments		Loans		Surplus	
	Amount	Percent increase	Amount	Percent increase	Amount	Percent increase	Amount	Percent increase
1923	$46.0		$13.3		$30.4		$2.3	
1924	48.8	6.1	13.6	2.3	31.5	3.6	3.7	60.9
1925	53.2	9.0	14.9	9.6	33.9	7.6	4.4	18.9
1926	55.7	4.7	15.4	3.4	36.2	6.8	4.1	−6.8
1927	58.0	4.1	16.4	6.5	37.4	3.3	4.2	2.4
1928	60.3	4.0	17.8	8.5	39.5	5.6	3.0	−28.6
1929	61.3	1.7	16.9	−5.1	41.5	5.1	2.9	−3.3
1930	63.0	2.8	17.5	3.6	40.6	−2.2	4.9	69.0
1931	59.3	−5.9	19.6	12.0	35.4	−12.8	4.3	−12.2
1932	48.2	−18.7	18.2	−7.1	27.8	−21.5	2.2	−48.8
1933	43.4	−10.0	17.9	−1.6	22.2	−20.1	3.3	50.0
1934	47.6	9.7	21.2	18.4	21.3	−4.1	5.1	54.5
1935	51.1	7.4	24.1	13.7	20.3	−4.7	6.7	31.4
1936	56.7	11.0	27.8	15.4	20.7	2.0	8.2	22.4
1937	58.9	3.9	27.2	−2.2	22.5	8.7	9.2	12.2
1938	57.9	−1.7	26.3	−3.3	21.1	−6.2	10.5	14.1
1938 over 1929	−3.4	−5.5	9.4	55.6	−20.4	−49.2	7.6	262.1

Source: Adapted from National Industrial Conference Board, Enterprise and Social Progress, 1939, p. 54

[14] Harold G. Moulton, et al. The Formation of Capital, Brookings Institution, Washington, 1935.
[15] Reported by National Industrial Conference Board, Enterprise and Social Progress, New York, 1939. p. 54.

From 1929 to 1938, even though the intervening years were chaotic for business, and spelled misery, privation, and starvation for many Americans, the total volume of bank deposits and capital funds declined only 5.5 percent. But the character of use of these funds changed drastically. Long-term investments in Government bonds and other safe holdings rose 55.6 percent from 1929 to 1938. Short-term loans to individuals and business, on the other hand, were either too risky or so little in demand that they declined 49.2 percent. Unused surpluses on deposit in banks rose 262 percent.

Classical economists argue that the uneven distribution of income does not seriously affect the use of the productive resources of the Nation, for if income goes largely into the hands of the few, it simply increases their surplus over living needs, and hence the capital available for industrial expansion—which results in more employment and larger funds available for consumption expenditures. But this increased concentration of income and wealth has resulted in a surplus of savings available for investment. In the depression year 1935–36, aggregate personal savings were $5,978,000,000, over 60 percent of which was saved out of incomes of $10,000 or more; while those having incomes of $20,000 or more that year constituted only 0.3 percent of all units, saved more than 50 percent of their enormous incomes, and accounted for 40 percent of all savings.[16] The Brookings Institution study, made from investigations covering the prosperous period 1918–29, also showed that the group with incomes above $20,000 saved over half of their incomes.

The significance of idle money in modern economic life is well expressed by the findings of the National Industrial Conference Board in a recent study:

> The amount of money lying practically idle is greater today than at any previous time in our history. We have more money to lend for productive purposes than ever before. The proportion of loans to our total bank deposits and net capital funds averaged 39 percent for the last 5 years against 63 percent for the preceding 11 years. The surplus of bank deposits and net capital funds over total loans and investments has more than trebled in the last 5 years [1934–39].[17]

Not only are personal savings not invested in any such proportion or amount as before 1929, but the development of large-scale enterprise has enabled many corporations to accumulate depletion and depreciation reserves of such size that they are no longer dependent on the capital market. Such accumulations permit internal financing for at least two distinguishable reasons: first, in replacing a machine on which a depreciation allowance has been taken, a more efficient machine may be installed at the same, or on a declining price market, at even a lower cost; second, large corporations are unusually well situated to use a depreciation fund accumulated from a declining line of production to finance the installation of a profitable line of production.

The Temporary National Economic Committee hearings disclosed the startling fact that for American business as a whole during the period 1923–29, which was one of great capital use and expansion, expenditures for plant and equipment averaged $8,500,000,000 annually, but business enterprises were able to supply $6,400,000,000

[16] Reported in National Resources Committee, Consumer Expenditures in the United States, 1939, Washington, p. 69.
[17] National Industrial Conference Board, Enterprise and Social Progress, New York, 1939, p. 47.

of that amount from their own depletion and depreciation funds.[18] Thus when even the largest volumes of funds were required, American business enterprises financed 75 percent of their needs from their own savings, and had to call upon the private investment market for only 25 percent of what they needed.

Another development of great portent is the increasing avoidance of the customary investment channels as a means of obtaining capital funds. In 1934, $455,000,000 of corporate bonds and notes were floated, 22 percent of which were placed privately; by 1938, $1,980,000,000 were floated, 37 percent of which were placed privately.[19]

The trend toward self-capitalization by business enterprises has greatly accelerated with the increasing concentration and growth of business units since 1929. From 1935 to 1937 American business used $17,400,000,000 of funds for plant, of which 92 percent came from internal sources. Only $1,400,000,000 were obtained from the investment capital of the Nation.

In fact, the steel, electric, railroads, and automobile industries, to whom many have looked for employment of idle men and capital, are able to fund the requirements for plant extensions and new equipment almost entirely out of their internal assets. They are like the United States Steel Corporation, which, to quote Stuart Chase:

> * * * went through its technical revolution, modernized its plants, putting many of them on the up-to-the minute continuous strip rolling basis, at a cost of $1,222,000,000. [Period under review 1921–38.] Where did the money come from? Out of depreciation and depletion, $938,000,000; out of profits retained $192,000,000—a total of $1,130,000,000. Practically the whole revolution [92.6 percent] was thus financed internally.[20]

The General Electric Co.'s chief, Owen D. Young, in the same hearings told an even more dramatic story than the president of the Steel Corporation, for he said that in the 60 years since its organization the General Electric Co. had "built its capital largely out of undistributed profits." [21]

The General Motors Corporation likewise is a self-contained business unit, not requiring outside funds for capital expansion. In fact, since 1921 its accumulated reserves have met all expansion purposes and have left a margin large enough to finance even the future expansion which would accompany an $80,000,000,000 national income, according to Alfred P. Sloan, Jr.[22] It is interesting to note in this connection that Henry Ford financed the retooling of his widespread operations entirely out of profits when he discarded the Model T, without calling on the investment market for aid.

Even the class I American railroads, which have been in such serious difficulties in the past 20 years, obtained from internal sources all but 20 percent of the $10,300,000,000 which they spent on plant and equipment from 1921 to 1938.

Summarizing the situation, Dr. Oscar L. Altman said:

> In years of high activity business enterprises draw upon the capital markets, but never since 1922 for more than $2,000,000,000 in a year. During years of

[18] Hearings before the Temporary National Economic Committee, Part 9, p. 3687. Also, Charts and Tables, Savings and Investment Hearings, prepared by the Securities and Exchange Commission for the Temporary National Economic Committee, Part. 9. Also, see Stuart Chase's excellent summary, Capital Not Wanted, Harpers Magazine, February 1940.

[19] Testimony of Adolph A. Berle, Jr., in hearings before the Temporary National Economic Committee, Part. 9, pp. 3815 ff., and 4065.

[20] Stuart Chase, op. cit., p. 230.

[21] See Hearings before the Temporary National Economic Committee, Part. 9, p. 3615 ff.

[22] Ibid., pp. 3658, 3661.

low activity, business enterprises do not require any funds from the capital markets. Instead, they contribute funds to the capital market, either by paying out dividends in excess of earnings, or by converting depreciation allowances into bank deposits.[23]

Dr. Alvin Hansen added a pertinent note concerning the use of capital in a matured economy when he said:

> When a society has accumulated a vast amount of capital goods, it is evident that the mere expenditure of depreciation allowances provides wide scope for continuous improvement of plant and equipment. The larger the amount of capital equipment the larger will be the depreciation, depletion, and obsolescence allowances. * * * I want to stress the point that it is quite wrong to assume that you can't make any progress in increasing production without a large volume of savings. * * * In modern times you can have a perfectly enormous increase in productive capacity merely by expending depreciation allowances and not tapping a cent of [individual] savings. * * * Savings do us good or harm according as they find, or do not find, investment outlets in productive expansion of plant and durable goods, including residential building and public works.[24]

Hansen concludes that economic recovery, making use of accumulated savings, can be obtained only through the following channels, short, of course, of a drastic change in the economy:

1. Absolutely new large-scale industries requiring vast sums of new capital.
2. Use of savings in housing and public investments where the accumulations of capital reserves are relatively small.
3. A sharp decline in savings, leveling off at a substantially lower ratio to national income, resulting in the production and distribution of proportionately more consumers' goods.

FOREIGN TRADE

The decline in our export trade adds another major problem to the long list of economic difficulties confronting the United States. The decision whether this is a temporary situation or a permanent and growing trend depends upon the interpretation of certain basic data. It is argued by some, such as Fred Henderson in his notable essay The Economic Consequences of Power Production, that widespread modern technology and the use of electrical energy have lessened the unusual advantages formerly held by certain export countries like ours, so that we are now seeing a world-wide development of industry which levels the differences between the advanced industrial and backward agricultural countries of the world.[25] If this be so, then it is probable that serious adjustments will have to be made in our economy to make up for the losses in revenue from customs duties and foreign sales.

In 1913 customs revenue totaled $318,900,000, and accounted for 48 percent of all Federal revenues. (See table 14.) By 1937 the total customs collections were $402,000,000, but accounted for only 7 percent of all Federal Government revenues. Customs revenues rose rapidly in the prosperous 1920's to a peak of $605,500,000 in 1927, but this greatest yield in customs duties was only 17 percent of all Federal revenues. In fact, during the past 20 years imports have never yielded as much as 20 percent of the annual collections

[23] Stuart Chase, op. cit., p. 232.
[24] Ibid., p. 233.
[25] The Economic Consequences of Power Production, George Allen and Unwin, Ltd., London, 1931.

of the Federal Government. It is clear that import duties are no longer to be regarded as the dominant source of Federal revenue.

TABLE 14.—*Federal tax revenue, 1913–37: Internal revenue and customs*

[Absolute yield figures are in millions of dollars]

Fiscal year	Total tax revenue—Internal revenue and customs [1]	Total internal revenue from taxes [1]		Total customs revenue [2]	
		Amount	Percent of total tax revenue	Amount	Percent of total tax revenue
1913	663.3	344.4	52	318.9	48
1914	672.3	380.0	57	292.3	43
1915	625.5	[3] 415.7	66	209.8	34
1916	725.9	512.7	71	213.2	29
1917	1,035.4	809.4	78	226.0	22
1918	3,879.0	3,699.0	95	180.0	5
1919	4,034.6	3,850.2	95	184.5	5
1920	5,730.5	5,407.6	94	322.9	6
1921	4,903.6	4,595.0	94	308.6	6
1922	3,553.9	3,197.5	90	356.4	10
1923	3,183.7	2,621.7	82	561.9	18
1924	3,341.8	2,796.2	84	545.6	16
1925	3,131.7	2,584.1	83	547.6	17
1926	3,415.4	2,836.0	83	579.4	17
1927	3,471.2	2,865.7	83	605.5	17
1928	3,359.5	2,790.5	83	569.0	17
1929	3,541.3	2,939.1	83	602.3	17
1930	3,627.1	3,040.1	84	587.0	16
1931	2,806.6	2,428.2	87	378.4	13
1932	1,887.1	1,557.7	83	329.4	17
1933	1,872.0	1,619.8	87	252.2	13
1934	2,987.1	2,672.2	89	314.9	11
1935	3,644.2	3,299.4	91	344.8	9
1936	3,907.0	3,520.2	90	386.8	10
1937 [4]	5,476.7	5,074.7	93	402.0	7

[1] Not including certain minor inland taxes and charges not listed under Internal Revenue, such as: (1) taxes on Federal Reserve banks, immigration head tax, etc.; (2) fees, fines, etc.
[2] Including tonnage tax for all years except 1936 and 1937, for which segregated data were not available.
[3] Alaska Railroad tax first included.
[4] For basis of estimates, see Facing the Tax Problem, pp. 514–515.

Source: Facing the Tax Problem, Twentieth Century Fund, New York, 1937, p. 515.

John M. Blair offers data showing the decline in exports of movable goods, characteristic not only of the United States but of the two other principal exporting nations, England and Germany.[26] Movable goods produced in the United States reached their peak of $52,825,000,000 in 1929, of which $5,157,000,000 was exported (table 15). By 1935 the total had declined to $35,141,000,000 of which $2,243,000,000 was exported. The percentage of total movable goods exported has declined steadily in each of the years listed from 1919 to 1935, except in 1925. The study shows, further, that the export of machinery and capital goods increased markedly, both in the aggregate and as a percentage of all exports, in the period 1876–1930. Machinery exports advanced so rapidly that in the 5-year period 1926–30 they constituted over a third of all capital-goods exports. Since 1925, machinery has been the largest single American export except for raw cotton and petroleum.[27] As Blair points out:

> Machinery, and the oil to keep it running—the two commodities which do the most in destroying foreign trade—may thus become in the near future our greatest exports. But it must not be forgotten that among the exports of machinery are types which produce other machines, the installation of which makes it possible

[26] Seeds of Destruction, Covici-Friede, New York, 1938, pp. 309 ff.
[27] Ibid., pp. 314–315.

for any nation to manufacture its own industrial equipment. And when that happens, when most of the important countries install these machines which make machines, there will no longer be a great foreign market for America's or any other nation's machinery.[28]

TABLE 15.—*Production of movable goods in the United States, and proportion exported, selected years, 1909–35*

[Dollar figures in millions]

Year	Movable goods					Percentage increase		
	Total	Domestic		Exported		Total	Domestic	Exported
		Amount	Percent of total	Amount	Percent of total			
1909	$17,662	$15,961	90.4	$1,701	9.6			
1914	20,270	18,199	89.8	2,071	10.2	14.8	14.0	21.8
1919	48,527	40,777	84.0	7,750	16.0	139.4	124.1	274.2
1921	34,163	29,784	87.2	4,379	12.8	−29.6	−27.0	−43.5
1923	45,903	41,812	91.1	4,091	8.9	34.4	40.4	−6.6
1925	47,494	42,675	89.9	4,819	10.1	3.5	2.1	17.8
1927	47,930	43,171	90.1	4,759	9.9	.9	1.2	−1.2
1929	52,825	47,668	90.2	5,157	9.8	10.2	10.4	8.4
1931	32,337	29,959	92.6	2,378	7.4	−38.8	−37.2	−53.9
1933	25,017	23,370	93.4	1,647	6.6	−22.6	−22.0	−30.7
1935	35,141	32,898	93.6	2,243	6.4	40.5	40.8	36.2
1935 over 1927	−12,789	−10,273		−2,516		−26.7	−23.8	−52.9

Source: Adapted from John Blair, Seeds of Destruction, Covici-Friede, New York, 1938, p. 309.

About 40 percent of the annual machinery output of the United States is exported. Thus, foreign markets are extremely important for the maintenance of employment and profitable business enterprise in this area of large-scale industry. Hence, the prospect of a decline in machinery exports makes the future outlook rather gloomy.

Nor does the foreign market for surplus American funds appear promising. The volume of foreign investments increased from $434,000,000 in 1923 to $3,253,000,000 in 1928, but declined thereafter until in 1934 they totaled $958,000,000.[29]

The United States in the past has lent foreign nations much of the money with which they have bought our durable goods and machinery. Although this process ultimately destroys our foreign market for both such machines and loans, the business has in the past been profitable. It continues to be so even today, but world-wide turmoil and depression make foreign investments unsafe, besides drastically curtailing their scope. There appears little prospect that the foreign capital market will be able to absorb any appreciable amount of our idle capital in the immediate future.

Looking ahead, however, to the possibility of Western Hemisphere economic development, and post-war reconstruction, there is the prospect of a revival of foreign trade and foreign investment which cannot be calculated at this time but which must be held before us as an outlet for economic efforts of substantial magnitude.

[28] Ibid, p. 316.
[29] *Ibid*, p. 320. These figures are exclusive of war debts.

THE ECONOMIC SITUATION AND MODERN TAX THEORIES

Taxation should be planned in relation to the economic problems of the Nation if it is to avoid a harmful and exert a beneficial effect upon national life. The basic economic data here summarized have been gathered with care, and are believed to be sufficiently comprehensive to describe the economy which tax theory and practice seek to affect.

Only in recent years has it been possible to present such a complex, factual picture of the economic structure of the United States, its development, and its problems. It was not until 1934 that the Brookings Institution studies appeared, the first connected presentation of America's capacity to produce, to consume, to form and to use capital. Except for Recent Social Trends, which appeared in 1933, there had been up to that time only individual studies of more or less isolated bodies of data. Following the Brookings studies, the Government itself investigated these topics still further, publishing a series of monographs whose effect will undoubtedly be to reframe the questions and reform the thinking on economic and social issues confronting the American people.[30]

These studies, and others, comprise an extensive literature on present-day economics, and provide the foundation for a sound tax policy. Various economists and fiscal experts have developed different theories on the basis of these data, some of which are offered in the following pages.

Harley L. Lutz, professor of public finance at Princeton University, is one of the ablest exponents of that group of tax experts who hold that taxation is for revenue only, and to employ it for any other purpose, such as the regulation of business enterprise or the redistribution of wealth, is unsound.

Writing on this subject in a widely used modern textbook on public finance, Lutz says:

> The definitions of a tax, quoted in an earlier chapter, without exception stressed the revenue purpose as the justification of taxation. Every instance of tax collection means the taking of private wealth without direct compensation. All taxation is in essence confiscatory whether the rate be low or high. Even if the greatest care be exercised in the selection of taxable objects and in the procedure of tax administration, the operation of a tax system involves more or less of arbitrary decision and action by assessors, collectors, and other officials. The only adequate and convincing defense for action that is essentially and inherently confiscatory in nature is that revenue is needed to support the legitimate public purposes of government in the common interest of all.
>
> It is true that taxation for the primary purpose of obtaining revenue has economic and social effects which may be in some degree indirect, remote, and incalculable, however skillfully designed and administered may be the revenue system. It is a sound principle of wise taxation that these effects should be estimated and anticipated as completely as possible, in order that methods of taxation may be used which have the least deleterious effects. When taxation is used deliberately

[30] Reports of the National Resources Committee and National Resources Planning Board, Washington, D. C., 1935 to date.

for the accomplishment of social or regulatory objectives, a vast amount of guesswork is inevitable as to the final effects, assuming that the regulating agency is not completely indifferent to these results.

Second, it is impossible to apply the canons of fair and equitable taxation when regulation or discrimination are the primary purposes. Neither benefit nor ability can be reckoned with in punitive taxation. While the tests of ability or benefit, and the other accepted requirements of reasonable taxation are not yet perfect, either in theory or practice, the striving after such principles is a logical necessity in view of the essentially confiscatory nature of all taxation.

Third, it is well known that the construction of an equitable tax revenue system calls for legislative ability of a high order, and that the administration of taxes is a task of enormous complexity and difficulty. Extensive use of taxation for regulatory and discriminatory purposes means either the erection of a costly and relatively unproductive administrative machine, or the overloading of the regular tax administration to a point that will endanger the adequate performance of its legitimate functions. As this practice proceeds, Adam Smith's picture of the odious and oppressive visits, the horde of officials, and the vexations of cumbersome and expensive administration will be increasingly realized.

Fourth, the regulation of the character of industry or of the affairs of individuals through penalty taxation assumes a degree of wisdom and foresight not likely to be possessed by those who design and administer such laws. American tariff history, for example, presents a considerable experience with this use, or misuse, of the taxing power. It would be difficult to establish that either industry or laborers, either producers or consumers had benefited in the long run and on the whole from this prolonged experiment in taxation for regulatory purposes. The mercantile system was an analogous type of governmental control of industry and trade according to preconceived ideas of what was best for the country. Adam Smith's attack on this system is well known. His castigation of the ruler who sought to order a nation's affairs by restrictions on trade and business is applicable to those who seek to accomplish this end through severe regulatory taxation.

* * * * * * *

Severely regulatory taxation is part of the general idea of regimentation, of determining, on the basis of preconceived notions or on the basis of favoritism, the character of business or the line of conduct deemed to be good for the people, and of keeping everyone in the established channels by heavy taxes on variations and departures.

* * * * * * *

Assuming the economic goal of a progressive community to be a steady growth in the capacity to produce *and* to consume, it is apparent that the weight of the tax system should be so distributed as to result in the minimum over-all hindrance to the achievement of this goal. It is reasonable to suppose that this minimum interference is more likely to be accomplished, first, by a distribution of taxation over both consumption and production rather than by a concentration upon either aspect alone, and second, by the avoidance of excessive taxation.

* * * * * * *

It would be difficult to produce convincing evidence, in face of these facts, to show that the existing volume of governmental services is of such definite and positive advantage to the productive processes as to counterbalance the deterring effects of the tax drain. Until this proof is forthcoming, it would appear that governmental costs are now too great, that there has been a sharply diminishing return from the later installments of governmental service, and that a substantial reduction of governmental costs, and thus of taxation, would release and stimulate both producing and consuming capacity.

* * * * * * *

Prolonged, heavy death taxes will no doubt check the growth of the capital supply from its present sources. It is possible that the loss could be made up in some other way, but no provision for doing this has accompanied the recent sharp increases in death tax rates.

* * * * * * *

Moreover, the taking of large slices of net incomes does not adversely affect contemporary production, for there are large elements of economic surplus in some of these incomes, loss of which does not check entrepreneurial effort. But the diversion of large amounts of personal income from its normal destination as a source of capital funds will inevitably diminish the future increases of capital from

this source, and no provision has been made, under any income tax or any fiscal program, for making good this loss in any other way.

* * * * * * *

This argument does not point to a reduction of income and death taxes, to be counterbalanced by heavier consumption taxes. Such a shift would tend to preserve the country's capital, but if carried far enough, it would neutralize the usefulness of capital, since there is no point in producing goods that cannot be consumed. If consuming ability be diminished through heavy taxation, the country's long-run loss will be no less serious than that which will follow a depletion of its producing capacity.

* * * * * * *

The advantage of good government is, indeed, so obvious that within reasonable limits the truth may be granted of the proposition that the individual gets more for his tax dollar than for most other expenditures of like amount.

* * * * * * *

It is easy, however, to overlook the fact that the expenditures for governmental services, like those for any other factor of production, are subject to diminishing return or advantage.

* * * * * * *

The ideal of distributing the tax burden according to ability is lofty, and deserves striving for; it is, however, impracticable as a general rule for all taxation, and in view of the benefit character of some governmental services, there is considerable room for doubt as to the ultimate desirability of arriving at the goal, were this administratively feasible.

* * * * * * *

The most ambitious nonfiscal objective of all is the so-called redistribution of wealth.

* * * * * * *

But there is a great and significant difference between the frank decision to tax large incomes and estates more heavily for the reason that more revenue is needed, and the crafty appeal to mass prejudice conveyed in the suggestion that the true reason for the tax increase is the curbing of the large income, and the breaking up of the large estate. The one policy is in line with orderly thinking on taxation and rests on defensible tax logic; the other obscures everything.

* * * * * * *

The mass appeal of such a program is an invitation to expect and to demand "bread and circuses," for only by liberal expenditures can the masses hope to derive even an indirect benefit from the program.

* * * * * * *

The advocacy of severe taxation for the avowed purpose of equalizing wealth and incomes has another demoralizing possibility. The policy is likely to lead to the assumption or belief on the part of the large group of persons having small estates or small incomes, that the services of Government should be supported in the main by heavy taxation of a few. * * * Nothing can be more clear or certain than that all citizens should contribute in some degree toward the support of the government under which they live.[31]

The National Industrial Conference Board is an employer-industrialist organization of research and publicity which has done much to express clearly the employer viewpoint on economic problems. Lewis H. Kimmel in the August 1939 Economic Record, a Board publication, analyzed the Federal fiscal policy of the past 10 years.

Kimmel indicates that after 9 years of deficit financing, the Federal Government has accumulated a debt of $26,831,000,000. This deficit was the result of heavy declines in tax receipts up to 1932, and since then of greatly increased Federal expenditures.

In 1932 excise and miscellaneous taxes were levied, and the rates increased on corporate and income taxes, to provide larger revenues. By 1934, however, the volume of Federal expenditures outweighed any such increased revenues.

[31] H. L. Lutz, Public Finance, D. Appleton-Century, New York, 1936, pp. 371–373, 375–378.

These Federal expenditures were justified by the consumer-purchasing power theory that increased consumer power would promote recovery. The consumer approach soon broadened into a theory of compensatory fiscal action, in which Government expenditure would be resorted to in depression to raise incomes, create bank deposits, and increase buying power, while in the upswing of the cycle we would have an increase of receipts over expenditures to hold in line any runaway inflationary moves. This excess of receipts over expenditures would curtail spending and offset the expansion of private bank credit. The theory requires application in both good and bad times, and to have been fully put into service would have necessitated a balanced budget by 1936.

After the cessation of Government spending in 1937 and the depression of that year, spending was begun in April 1938, on the pump-priming theory, which involves no compensatory action, but merely says that when private activity is not available, the Government should substitute its own purchases of goods and services.

There is also a theory of public investment, which holds that when private investment fails, the Government should invest in public works, to provide the necessary activity in capital goods industries. This really should require a double budget, to consider the assets created in the process, which the New Deal has not used.

The results of Federal expenditures under any of these theories are an increased tax burden and an increased public debt which must ultimately be met by taxation. Kimmel regards taxation as a business deterrent for two reasons:

> First, it is not possible to measure precisely the effects of taxation on most business decisions. Second, because of the widespread use of taxation for regulatory purposes in recent years, it has been impossible to determine the reactions of business to the taxes imposed, considered either from their revenue standpoint or as business costs. The only definite conclusion that can be drawn is that tax policies and other regulatory measures have acted as deterrents to the assumption of business risks and have tended to lower what has been termed "the supply of business initiative."

He concludes that taxation to pay for Federal expenditures is burdensome and acts as an economic deterrent. In this he sees the basis for a new form of government, quite different from the form of capitalism under which we grew up. He says:

> Over a period of years, the augmentation of consumer purchasing power, compensatory fiscal action, and pump-priming have been advanced as bases for fiscal policy and in justification of large Federal deficits. At the present time the emphasis seems to be principally on public investment. The policies that have been followed have definitely increased the importance of government as a factor in the economy, without achieving the functioning of the private enterprise system at or near its peak. The costs that have been incurred incident to the fiscal and related policies that have not achieved the desired results constitute burdens, present and prospective, that fall mainly on the private branch of the economy. These costs, in turn, tend to render the proper functioning of the business system more difficult. In particular, they tend to restrict the volume of private investment.
>
> Considered jointly, these facts strongly suggest that the outstanding implication of the Federal fiscal policies that have been followed since 1933 is that they involve a gradual transition to a different form of economic order. If it is assumed that it is the function of government to spend and invest whenever those in authority consider that private business activity is not at a satisfactory level, then there must inevitably be a greater degree of reliance on government as a source of both money incomes and real incomes.[32]

[32] National Industrial Conference Board, Economic Record, August 31, 1939.

Gerhard Colm, professor of economics in the graduate faculty of political and social science at the New School for Social Research in New York, and at present fiscal expert for the Bureau of the Budget, is one of the most eminent fiscal authorities in the United States. He has developed the economic theory underlying fiscal and tax policy probably further than any other person in this broad field of study; hence his findings are especially important. He states his position in an article on "The Bases of Federal Fiscal Policy," in Taxes for June 1939, and in "The Ideal Tax System," Social Research, volume 1, August 1939. This position is summarized here.

Colm discusses the purpose of taxation in various kinds of economy, and of the means most adaptable to achieve those purposes. He defines four types of state—the protective state, the social state, the partnership state, and the control state—and points out that the development of the economy is usually more rapid than the tax or administrative change that should accompany it. The United States, for instance, has shifted more rapidly than any other nation from the protective stage to the partnership and control stage, while its fiscal system is still geared to the protective stage.

In 1934 Great Britain was in the liberal-social stage, and its tax system placed most reliance on the income tax, as the "best" tax for its purposes. Germany, on the other hand, was in 1934 in the partnership and control stage, and levied business and cost taxes, largely because her system of consumption and income taxes proved inadequate.

Mere social taxation is not enough for the United States, which has in some fields progressed into the partnership and control stages. It needs social taxation and also business taxation.

In both social and control states, depression must be fought by expenditure rather than economy, which would suffice under the protection stage. As a result unwieldy deficits occur.

The even more serious question must eventually arise—how to develop a tax system resistant to depression. One way is to levy taxes less sensitive to depression. Ranged on a rising scale according to sensitivity, the available taxes are as follows: poll taxes; consumers' necessities taxes; consumers' luxury taxes; taxes on property, capital, and inheritances; turn-over taxes; income and profit taxes (especially sensitive if offsets or property allowances are permitted); and appreciation of property values. If the first two taxes are increased, greater stability is secured at the expense of justice. Increases in capital value taxes result in increases in cost of production, which means achieving fiscal stability at the cost of economic stability. In the fourth stage of government control, fiscal and economic stability are identical. It seems reasonable, therefore, that if fiscal expedients may be provided otherwise, stability should not be a deciding factor in tax reform.

Depression must be met in a social state by accumulating surpluses in prosperity to meet adversity in depression, or rather by borrowing in depression and repaying the loans in prosperity.

As the state develops into the partnership and control stages, it becomes necessary to resort to cyclical taxation, since the state is, to some extent at least, responsible for, as well as affected by cyclical changes. In this situation, it is necessary to consider the point in the business cycle when any tax is introduced. For instance, a sales tax tends to accentuate the downswing of business. On the upswing,

however, this tendency is minimized, and the full effect is gained in the way of a quick and large increase in tax receipts. Also, it is safer to increase income and mass luxury taxes than business and cost taxes, since the restrictive effect on the economy is smaller.

An ideal tax system is one which, within the limits of justice and the social purposes of the Nation, increases economic stability. The income tax has been proposed for this purpose since it combines ability to pay with a desirable effect on the capital structure. It seems advisable to reduce capital accumulation during prosperity. But the income tax is a clumsy means to achieve this end, and at best, it is only one means. Private capital accumulation may well give way even further to corporate accumulation under such circumstances.

It has been argued that high taxation during prosperity and low taxation during depression would work much as would high and low interest rates; directly, to stimulate or discourage investment, and indirectly, if surpluses are used to pay debts, by increasing or curtailing credit expansion. This system would work only if taxpayers would spend, in depression, the funds saved by reduced taxes, which they are not likely to do.

The tax system of the future should eliminate the present tax loopholes, put the collection of inheritance and income taxes on a national basis, and include business taxes, probably on two bases. Dr. Colm suggests that corporations be divided into two classes: the first, the large interstate corporations, preferably chartered nationally, paying a corporate franchise tax and a tax on undistributed profits (since the public capital markets are available to them). The second would be local corporations, which would pay lower taxes, but which would have to declare all profits, as in a partnership. This system will include a tax on long-term debt, or interest paid on such a long-term debt. The state levies would be business taxes, on the value added by manufacture, and the local tax base would be real property.

Colm summarizes his proposals as follows:

> * * * the Federal Government would tax the most movable subjects, wealthy individuals, and large corporations, the States would tax business, and the municipalities—land, the most immovable object of taxation. This would also mean a scale from the most sensitive to the more steady sources of revenue. The Federal Government, of course, is more able than States and local governments to carry a deficit in periods of depression and, on the other hand, needs the tax sources which respond quickest to an upturn in business and the national income.
>
> I realize that this contribution to the present discussion of tax reform appears utopian to everyone who knows the constitutional and political difficulties impeding every move in this field. Yet we should at least clarify our notions of what is desirable for a period in which taxation reached a level unknown to former times and in a period of economic instability. Only by such an overhauling of our ideas can we make sure that in our daily compromises with the realistic necessities, we will nevertheless move in the right direction.[33]

Harold Groves, professor of public finance at the University of Wisconsin, is an outspoken exponent of the use of taxation for both fiscal and nonfiscal purposes.

In his book, Financing Government (pp. 725 ff.) he takes issue with those who regard Government expenditures as a drain on the economy, saying that the Government is a productive part of the economic system—accounting for one-fifth of the national income. The Government achieves this production in three ways: By facilitating

[33] Gerhard Colm, "The Bases of Federal Fiscal Policy" in Taxes, June 1939.

private production; by providing direct consumer satisfactions; and by protecting consumers in the matters of standards and prices.

The question whether a particular government or private service is more productive is decided by the intelligent choice of the voter, which must also consider the means adopted to pay for it. That is, if a Federal service is provided, to be paid for by a consumers' tax, it will probably be more expensive, in its withdrawal of consumer purchasing power from other fields, than a private service offered to those willing and able to pay for it.

Groves disagrees with those who say that taxation destroys initiative. He admits that in some cases business taxation may increase costs to a point where a monopoly would refuse to expand rather than pay the tax; nevertheless, he contends that an adequate tax program, by providing a more stable economy and an increasing market, will actually encourage business. He also considers the use of incentive taxation (taxes on unused capacity and on unemployment) to aid recovery.

Taxation on capital is attacked as destroying the Nation's "tool fund." Groves, however, regards oversaving as a real danger, since it simultaneously removes purchasing power from the market, and by forcing interest rates down, encourages businessmen to invest in new productive facilities. He concludes that there is no lack of investment capital, although risk capital is not sufficiently available, and points out that our tax system, with tax-exempt Government bonds, tends to penalize the risk taker as against the saver.

Government deficits are an expected accompaniment of a depression, although their long continuance is dangerous to the Nation's tax system and fiscal stability. Groves approves the system of cyclical budgets, to be balanced within the business cycle rather than in a year, but admits that governments sometimes do not repay loans in good years, and the cyclical pattern is often impossible to foresee.

Government expenditures are divided into four types: self-liquidating, reproductive, productive, and nonproductive. The first two are expenditures which return more than the amount spent on them; the third provides assets to the extent of the expenditure; and the fourth actually provides less than the amount spent. He classes armaments and made-work in the last category, and argues that the first three are far more effective in securing recovery, as well as being more valuable in themselves

He concludes:

> The railroads, office buildings, factories, and other elements of a great economy have been built the extension of these capitalistic developments into virgin territory cannot be renewed. A healthy economy needs to expand. The Government with its high command over both credit and taxation must underwrite the economic expansion of the future.

The British economist, John Maynard Keynes, formulated a general theory of economics which, he believed, would lead to recovery and result in full employment of the manpower of the Nation.[34] This theory has become recognized by many economists as providing an economic basis for a tax system directed toward a solution of the problems which confront modern capitalism.

[34] John Maynard Keynes, The General Theory of Employment, Interest, and Money, Harcourt, Brace, New York, 1936. A very important mathematical analysis of the American situation ("Secular Unemployment," by J. Marcus Fleming), employing the Keynesian formula, appeared in the Quarterly Journal of Economics, November 1939.

The data on economic trends submitted earlier in this section indicate that if events permit the adoption of a peacetime tax system for recovery, Keynes' formula will be of profound importance. He has repeatedly "guessed right" in his analysis of economic conditions, as evidenced by his book The Economic Consequences of the Peace, and other studies. Excerpts from his General Theory follow:

The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes.

* * * * * * *

Up to the point where full employment prevails, the growth of capital depends not at all on a low propensity to consume, but is, on the contrary, held back by it, and only in conditions of full employment is a low propensity to consume conducive to the growth of capital. Moreover, experience suggests that in existing conditions saving by institutions and through sinking funds is more than adequate, and that measures for the redistribution of incomes in a way likely to raise the propensity to consume may prove positively favorable to the growth of capital.

* * * * * * *

I believe that there is social and psychological justification for significant inequalities of incomes and wealth, but not for such large disparities as exist today.

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The justification for a moderately high rate of interest has been found hitherto in the necessity of providing a sufficient inducement to save. But we have shown that the extent of effective saving is necessarily determined by the scale of investment and that the scale of investment is promoted by a *low* rate of interest, provided that we do not attempt to stimulate it in this way beyond that point which corresponds to full employment.

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Interest today rewards no genuine sacrifice, any more than does the rent of land. The owner of capital can obtain interest because capital is scarce, just as the owner of land can obtain rent because land is scarce. But whilst there may be intrinsic reasons for the scarcity of land, there are no intrinsic reasons for the scarcity of capital. * * * It will still be possible for communal saving through the agency of the State to be maintained at a level which will allow the growth of capital up to the point where it ceases to be scarce.

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Thus we might aim in practice (there being nothing in this which is unattainable) at an increase in the volume of capital until it ceases to be scarce, so that the functionless investor will no longer receive a bonus; and at a scheme of direct taxation which allows the intelligence and determination and executive skill of the financier, the entrepreneur et hoc genus omne (who are certainly so fond of their craft that their labor could be obtained much cheaper than at present), to be harnessed to the service of the community on reasonable terms of reward.

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It is not the ownership of the instruments of production which it is important for the State to assume. If the State is able to determine the aggregate amount of resources devoted to augmenting the instruments and the basic rate of reward to those who own them, it will have accomplished all that is necessary.

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I see no reason to suppose that the existing system seriously misemploys the factors of production which are in use. It is in determining the volume, not the direction, of actual employment that the existing system has broken down.

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The authoritarian state systems of today seem to solve the problems of unemployment at the expense of efficiency and of freedom. It is certain that the world will not much longer tolerate the unemployment which, apart from brief intervals of excitement, is associated—and in my opinion inevitably associated—with present-day capitalist individualism. But it may be possible by a right analysis of the problem to cure the disease whilst preserving efficiency and freedom.

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The new system might be more favorable to peace than the old has been.

TAX THEORY AND ECONOMIC LIFE—A SUMMARY

It is apparent that both conservative and progressive tax authorities concede taxation a large place in modern economic life. But they disagree widely as to the exact role taxation can or should play in aiding recovery and establishing a somewhat permanent level of prosperity.

The essential difference between these authorities, and they are representative of their respective schools of thought among the economists, revolves about the use of taxation as an instrument of social and economic control. Both sides are sincere and honest. Each derives from a different knowledge and interpretation of economic history and present-day developments.

A dispassionate study indicates that the classical economists and fiscal authorities are shackled by their early training in economic theory, and their views on taxation have not kept pace with current events. One of the most eminent among them, Lutz, writing in 1936, after prolonged mass unemployment and economic stagnation, fails to recognize their seriousness and the possibility of using taxation to aid in their solution.[35] In his discussion of taxation and economics he utterly neglects the prophetically important work of John Maynard Keynes, Harold Groves' articles on "Taxation and Social Control," which appeared early in 1934 and caused Nation-wide discussions among fiscal experts, and the significant Brookings Institution series on America's capacity to produce and consume.[36] Instead, he leans heavily on J. S. Mill (1806–73) and C. F. Bastable (1855——), quoting the latter at length in support of his tax theories as they apply to economics.[37]

Here is the key to the conservative position. Mill and Bastable wrote in a period of world frontiers, when scarcity of capital, lack of manpower, the abundance of natural resources and free land, and an expanding world trade justified their theories. All during the nineteenth century most of the profits of enterprise were immediately reinvested, either to expand existing enterprises, or to start new ones. In such a period there was considerable validity to the classical doctrine that society as a whole benefited from the concentration of excessive incomes in the hands of the few, for their savings were invested in labor-using enterprises which expanded industry, increased employment, and raised the general standard of living. The situation changed, however, after 1900. Even in the prosperous 1920's the available capital could not be readily employed in industry, and millions of dollars were siphoned off into stock market gambling, extravagant living, and wild speculations which greatly unsettled the

35 Harley L. Lutz, Public Finance, Third Edition, D. Appleton-Century, New York, 1936.

36 John Maynard Keynes, The Means to Prosperity, Harcourt, Brace, New York, 1933, and subsequent publications; Harold M. Groves, "Taxation and Social Control," New Republic, February 14, 1934, et seq.; America's Capacity to Produce, and America's Capacity to Consume, Brookings Institution, Washington, 1934.

37 John Stuart Mill, Principles of Political Economy, Ashley Edition; C. F. Bastable, Public Finance, Macmillan, New York, 1892. Lutz gives Bastable as a chapter reference 8 times and cites him 10 times.

investment market, and did not increase employment nor expand industry wisely.

The conservative tax experts of the day regarded these changes as momentary aberrations rather than fundamental shifts in economic conditions, and fell back on their classical dogmas as verities which would soon reassert themselves. Furthermore, these conservative tax experts had become increasingly concerned with minutiae of tax problems. They dealt less and less with taxation as a phase of economic policy, and became more and more engrossed in the legalistic interpretation of tax statutes and the proper administration of tax laws. As they specialized, many of them came to ignore the society in which the tax system was supposed to fit. Business called upon them as tax consultants and specialists. This contact with the business community further assured them of the practical value of their classical economic theories, for it was in terms of these theories, however outmoded, that the expansionist economic practices of businessmen were conducted and rationalized.

This close affinity between conservative tax experts and the business community contributes materially to the social lag which prevents changes in tax theory in keeping with present-day needs of the economy. As Colm so well recognizes, our national social system has rapidly been forced out of its merely protective stage into the partnership and, in some major aspects of the economy, even into the control stage. Of necessity, the tax system must be evolved to keep pace with these major shifts in the role of Government. The business community generally, however, still believes that the State is good to the extent that it provides a protective environment for business operations, itself performing as few economic functions as possible and never entering any sphere of business where private enterprise can operate. They are ably supported in this view by conservative tax authorities, who stigmatize as unethical, taxation for social control.

In *An Economic Program for American Democracy* [38] seven Harvard and Tufts economists have collaborated to highlight our present economic difficulties and to outline a practical program which will go a long way toward solving those problems within the framework of the democratic capitalistic society. Their proposals not only fit, in substantial measure, the analysis of the structure and trends of the economy presented in appendix A, but they are in essential agreement with Keynes' theories and Colm's historical analysis and suggestions.

These economists defined the basic changes in economic life as:

1. The disappearance of the frontier.
2. A decline in the rate of population growth.
3. The end of world expansion into new areas.

Obviously, these three basic changes, thus tersely put, do not fully describe our present-day economy. Yet they are the essentials of the important changes through which we are passing. It is possible to overstress one or the other; nevertheless, reduced to their simplest and truest terms, these are the elements of change, and around them any effective recovery program must be built.

The fundamental necessity for recovery is a sound program which will raise the national income and keep it high. Under the New Deal

[38] Richard V. Gilbert, George H. Hildebrand, Jr., Arthur W. Stuart, Maxine Yaple Sweezy, Paul M. Sweezy, Lorie Tarshis, John D. Wilson, An Economic Program for American Democracy, The Vanguard Press, New York, 1938.

the national income has expanded from $41,000,000,000 in 1932–33 to $70,000,000,000 in 1936.[39] Here is proof that national income is responsive to Government stimulation, for it was not private disbursement but public spending through the P. W. A., W. P. A., and other New Deal agencies which increased national income.[40]

While the ability of the Government to raise national income has been demonstrated, we are confronted by the more difficult problem of maintaining national income at prosperity levels and seeing that it is adequately distributed among the people. New fields for investment must be opened. Opportunities abound in the field of consumers' purchases, hampered only by the lack of purchasing power in the hands of millions of Americans. The distribution among them of Federal work and relief money, while it greatly stimulates the consumption-goods market and makes place for capital investments, has not been sufficient to solve the problem.

But it is in the durable-goods area of economic activity that the greatest log-jam has occurred. While the economy in the near future will probably rely more upon the consumers' goods sector than upon capital goods, nonetheless, recovery of the durable goods industry is vital. Here, too, the Government properly has offered and can continue to offer a stimulus, for low-cost housing has never been profitable for private business, while under Government financing it is feasible, and promises great things for private industry. Other forms of investment suggested by the Harvard-Tufts economists will operate in the same way, such as highway and bridge construction, conservation and control of natural resources, flood control, city planning, etc.[41]

It is suggested that current taxation be used to pay for the consumption program, temporary aids, such as unemployment relief, and continuing activities like the social-welfare program. The Harvard-Tufts economists urge adequate enforcement of income and inheritance taxation; closing of loopholes in present laws; and an increase in rates in the middle-income brackets; the taxation of undistributed corporate profits; and the elimination of tax-exempt Government securities. Even these reforms might not immediately supply the revenue needed for the consumption program, yet, as the national income increased, sufficient funds would be available from these sources.

It is proposed that the long-range program of Government aid to economic recovery be financed through Government borrowings.. This raises the question of public debt and the solvency of the Government. It is a crucial issue in public policy, and one upon which political emotions have been stirred to great heat, and often to hasty, ill-considered action. The Harvard-Tufts economists point out many

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[39] Ibid., p. 25.

[40] "During the early phases of the recovery period the disbursement of business concerns in the form of income payments to individuals (such as wages and salaries, dividends and interest on borrowed capital) rose by a smaller amount than the income received by business from the sale of goods and services to consumers; the remaining funds were used to build up cash balances and pay debts. Since the expansion of income disbursements by business to the community lagged behind the expansion of income from the sale of products to consumers, it follows that the stimulus to increased industrial activity and employment did not originate from within the business organism. Moreover, by 1932 or 1933 most consumers had lost or exhausted their accumulated savings, and many had exhausted their credit also, so that the stimulus to increased expenditure could not have originated with them." Ibid., p. 26.

[41] "This program is designed to protect private enterprise in the traditional private sector of the economy It proposes to do this by restoring the demand for the products of private industry through a vigorous expansion of the public sector. A moderate amount of income redistribution is entirely consistent with this aim. Too great an inequality in the distribution of incomes is a danger both economically and socially. * * * In connection with our proposals for redistribution of income, the distinction between the long-run and immediate program must be kept in mind. We do not advocate any redistribution of income on the present poverty level of national economic activity." Ibid., pp. 47–48.

of the confusions regarding debt, and stress the difference between personal and public debts. As they remark:

> If we look at the whole Nation as a going concern, we see that its internal debts, business and governmental, are merely another aspect of its assets. * * * An expanding economy not only can, but must, continually increase the total volume of debt outstanding. * * * Individual debtors do, of course, get into trouble by improvident borrowing. But for the economy as a whole, trouble comes only when the Nation falters in the course of its economic expansion. Only in periods of crisis and depression is there a general questioning of the solvency of debtors. The expansion of debt at a rate sufficient to absorb the Nation's savings is both sound and necessary. This rate could be excessive only in the sense that the rate of savings itself was excessive. Thus, what we should worry about is not the increase of debt but the increase in savings beyond the amount that can be absorbed by investment.[42]

Opposition to Government indebtedness revolves around three widely publicized and propagandized propositions:

1. Government activities are unproductive, hence borrowings for such expenditures are a waste of economic resources which would not occur were they used in the private sectors of the economy.
2. The interest charges on government debt impose an intolerable burden on taxpayers, often extended beyond the time in which the money borrowed has been used, and paid for by succeeding generations.
3. An expanded debt jeopardizes the credit of the Government, and may lead to disastrous consequences such as inflation.

The first point is easily answered by a comparison, say, of the productivity of a motion-picture theater with the construction and maintenance of the Brooklyn Bridge. The range of both public and private enterprise includes those which might reasonably be discontinued as unproductive and those which are indispensable.

As to point 2, the interest charges on Government debts are paid by taxpayers to bondholders, and hence do not reduce the Nation's income, however they may affect the circumstances of individual taxpayers. There is, of course, considerable inequality in the debt burden borne by the various income classes, for our present regressive tax system weighs heavily on the small-income classes, who are not the bondholders of the Nation.

The answer to point 3 is conjectural and depends largely on the "psychology" of the public. There is no actual evidence that Government credit is being impaired as the debt mounts. The low interest rate still indicates vast uninvested surpluses of capital, and the powers of the Federal Government have been sufficient to prevent any general price increases of inflationary character.

Great Britain is the best example of a capitalistic economy in which fiscal policy has been made to coincide with economic trends. Unemployment insurance and Government employment services launched in America in 1935 were begun in England before 1910. With the exception of 3 years under the Labour Party from 1928 to 1931, the conservative capitalists were in power in England constantly after 1900. The minority liberal parties offered important opposition, but were unable to control the Government. Hence, while many reforms were wrung from the conservatives against their strongest opposition, nevertheless, they continued to rule Britain.

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[42] Ibid., pp. 63–65.

The depression of 1921 struck England so severely that the unemployment insurance system collapsed, and the dole was adopted for uninsured unemployed workers. It has been continued uninterruptedly ever since, being budgeted until 1929 as an emergency, but after that as a regular recurring item. Thus, in perhaps the most advanced capitalistic nation in the world, unemployment relief has been accepted for nearly 20 years as an aspect of a capitalistic economy which does not use its entire labor force. The Economic Science and Statistics Section of the British Association for the Advancement of Science reports:

> Even in 1929, the most prosperous year in post-war history, the number of unemployed exceeded the number of unemployed in years of extreme depression before the war.[43]

By 1938, 13.1 percent of the insured workers were unemployed.[44] Total unemployment was considerably above that figure. In 1937, a relatively good year, there were 13 percent more workers employed in Britain than in 1929; even then, however, 11 percent of all insured workers were still listed as unemployed.

Yet England had evolved a fiscal system to cover the increased expenditures after 1934, largely necessitated by the chaos of the national economy and the need for large social-security expenditures. Borrowing played an important part in the fiscal program, but the reformed tax structure also had signal effect. The ratio of taxation to national income rose from 15 percent in 1929 to over 22 percent in 1934.[45] While both consumer and income taxes were increased, it is the consensus of the experts that the British working classes were especially benefited by the changed fiscal structure.[46]

Alvin Hansen, in the Temporary National Economic Committee hearings, called attention to certain important summaries. Before World War I about 13 percent of the British national income went into savings; by 1935 this had dropped to 7 percent. Yet, as savings deposits, surpluses in the depreciation and depletion accounts of British corporations, reported net incomes, and the interest rate clearly show, there was no dearth of investment capital.

In 1911–12 only 3 percent of the national income in Great Britain was spent on social services; by 1934–35, 12 percent was so spent. The shift in taxation during the past 30 years from consumers taxes to income and estates taxes has particularly benefited working people, so that by 1935 total benefits received by them from the Government were 21 percent greater than all direct and indirect taxes paid by them to the Government.[47]

Just prior to the present war British fiscal policy attempted to place the burden of expenditures to maintain as much purchasing power as possible, make available an adequate supply of investment capital, and disrupt economic life as little as necessary. It had not fully achieved these aims, despite its substantial accomplishments. It had not established full employment, following the Keynes formula or any other. It continued to pile up national debt, but failed to initiate

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43 Research Committee of the Economic Science and Statistics Section of the British Association, Britain in Depression, Isaac Pitman & Sons, London, 1935, p. 13.
44 National Industrial Conference Board, Enterprise and Social Progress, New York, 1939, p. 288.
45 Britain in Depression, p. 461.
46 Ibid., p. 462.
47 Testimony of Alvin H. Hansen in hearings before the Temporary National Economic Committee, pt. 9, pp. 3555–3556. British data are taken from studies by Pigou, Colin Clark, and others.

a program of Government investments such as has been suggested by Keynes or the Harvard-Tufts economists. It represented the efforts of an enlightened conservative capitalistic government to maintain capitalism during a far-reaching reorganization of its productive-distributive system. It is in no sense a model of perfection, and it falls far short of extensive dependence on government advocated by the Harvard-Tufts economists for both consumers' welfare and the movement of durable goods.

Yet, particularly on the tax side, Britain has achieved notable results, indicating that in tax reform may be found substantial aids to maintaining the capitalistic system and possibly to promoting recovery. In this direction the United States must go if it hopes to establish a tax system in line with its economic trends. Specific recommendations, however, must depend upon a careful analysis of Government expenditures and tax revenues.

TAX THEORY AND THE PREPAREDNESS PROGRAM

No statement of tax theory and the economic life of the nation would be complete at this time without reference to the requirements of the United States for a preparedness program. While this is discussed in detail in part IV, the theory underlying fiscal policy and taxation in a defense economy is summarized here. It differs in important essentials from that underlying a tax system intended to benefit a peacetime democratic economy. A democracy is distinguishable from totalitarian states in either peace or war in several important ways, one of which is the fiscal policy and economic controls established.

Germany, for example, geared her entire economy to her national purposes, brushing aside individual enterprises, private ownership, and the right to profits as seemed desirable or necessary to achieve her ends. The labor force was subjected to rigorous discipline and control, unionism and collective bargaining were destroyed, and the working population was regimented so as to make available the amount and kind of production required by the state. Consumption standards were altered from time to time in terms of state policy, and rationing of goods enforced to limit and direct their use. Revenue was obtained through direct levies on the pay rolls of the nation, and the enactment of a series of sales and other taxes which readily produced large sums. Capital was conscripted for the use of the state, and management-operated plants according to prescribed plans. The aims of this program have recently become apparent, at least in part.

Even in the present emergency, the United States could not follow in Germany's footsteps without becoming in effect a totalitarian state. We must establish as quickly as humanly possible an adequate defense. But in doing so, it is our purpose to preserve the methods, practices, and achievements of democracy. We must make the fullest use of our manpower and other resources to accomplish our objectives, but we need not destroy democracy in the process. A sound fiscal policy and tax system offer good insurance against such a possibility.

The necessity of diverting a substantial part of our national resources and manpower to preparedness and wartime purposes, of a destructive character from the economic standpoint, does not offer a substitute for the solution of our peacetime economic problems. For, when the war is over, the problems of the modern industrial society will still be with us, and a greatly increased assortment of added problems will confront us.

It may be, however, that as the preparedness program expands, it will dominate the economy. It may achieve prosperity of a sort, in which national income will reach new heights, full employment will render the relief problem inconsequential and provide income for the full labor force, and the consumer-goods industries will be strained to capacity to produce goods enough, of a sufficient variety, to satisfy the wants of the community.

Such a preparedness and wartime economy, built hurriedly in an emergency with relatively little regard for long-term planning, appears to provide a healthy prosperity. Factories run three shifts, farmers enjoy ready sale at good prices for all they can raise, no lines of unemployed wait patiently at factory gates for jobs that fail to turn up, and goods are taken off the shop shelves as fast as they are delivered from the warehouses. Hard to imagine as such a situation is for those who have grown up since 1929, this is just what occurs every time any serious and prolonged war breaks out. As Keynes well says:

In war we move back from the Age of Plenty to the Age of Scarcity.[48]

Obviously, fiscal policy and tax practices geared to achieve abundance do not adequately satisfy the demands of a scarcity economy. For example, when we have idle men, factories, and capital, we have underconsumption of goods. In this situation, sound fiscal and social policy includes public works to provide employment, public borrowings to augment private loans, and the strictest avoidance of levies which curtail consumers' purchasing power, such as sales and excise taxes. The principal purpose of an economy geared to wartime preparedness, on the other hand, becomes the development of adequate defenses, and whatever is left over after satisfying these defense needs is available for the use of the civilian economy. As the emergency becomes acute, the goods and services available for the civilian sector grow less. Then it is not the amount of money in the pockets of the people or their readiness to spend it which governs production, but the physical capacity of the Nation to meet the insatiable demands of war defense and still produce something for the maintenance of the civilian population.

In this situation prices rise with startling rapidity, and wage increases never quite catch up to them. Profits grow enormously, and are siphoned off by old and new millionaires and wartime profiteers. The needs of government grow so rapidly that recourse is had to borrowing on a huge scale. The national debt mounts to astounding heights. Then, when the war is over, industries close their doors, men are idle, those who have been off to the war or in the training camps return to further augment the number of unemployed, and the accumulated national debt weighs heavily on the taxable resources of the country. A deflationary period sets in which is ruthless in its social and economic consequences.

This is the sober, documented testimony of experience, so recent as World War I. Its effects were so pronounced that the national economic life still staggers under the accumulations of war debt and the unsolved economic problems which it produced. As Bernard M. Baruch, chairman of the War Industries Board at that time, has so well said, the inflation established a dollar worth only 50 cents, and in 4 years created a war debt of $39,000,000,000, which, had no inflation occurred, would have been only $13,000,000,000. In his judgment—

Such a grotesque result would be almost unbelievable were the figures not living facts. If anything can be done to avoid this practical doubling of the economic burden of war, certainly we should spare no effort to accomplish it.[49]

Fiscal policy and the tax system should be geared to meet the unusual demands of a wartime economy, so as to mitigate these con-

[48] How To Pay for the War, Harcourt, Brace, New York, 1940, p. 17.
[49] H. Doc. 163, 72d Cong., 1st sess., Message of the President transmitting the report of the War Policies Commission, p. 33.

sequences as far as possible. In the initial stages of the preparedness program it will be necessary to borrow large sums, but the national debt must be kept as low as possible, without in any way hindering the successful prosecution of the war objectives. To keep it so will require a broadened tax program, using net income and profits taxes as the core of the system.

When full employment is reached, it becomes necessary to regulate or curtail consumption of certain goods, and here again the tax system can be helpful through the use of sales and excise taxes so high as to become a factor in the kind and amount of consumption goods used. It is probable that full employment will not be reached until some years of a preparedness economy have passed. In the meantime, bottlenecks may appear and production be seriously hampered. In this situation, taxation may be used to direct the flow of purchases, or limit purchasing power in the interest of economic stability. (See pt. IV for a further discussion of preparedness taxation.)

A democracy rightly is concerned with the sacrifices made by its citizens, and the tax system is the best available instrument to maintain some degree of equality in the sacrifices made by those engaged directly and indirectly in war. Democracy is concerned that none benefits from the sacrifice of others, for preparedness is in defense of our common heritage and not for economic gain or personal glory. Again, the taxation of profits and net incomes becomes a useful instrument to effect this purpose.

If a well-devised system of taxation is employed to complement other methods of price control and organization of the wartime economy, it is possible that at the close of the war, the national debt will not be unbearable, mass purchasing power will be available to cushion the transition of the economy from a war to peacetime level, and the inevitable deflation will be kept within limits which will not threaten the very life of the Nation. The accumulation of unsolved problems which burden us as we enter the present preparedness era makes it imperative that we find some fundamental solution both for them and for others which loom ahead.

PART II

THE NEEDS OF GOVERNMENT

AN ANALYSIS OF GOVERNMENT EXPENDITURES

THE NEEDS OF GOVERNMENT

PURPOSES OF GOVERNMENT EXPENDITURES

An analysis of the expenditure program of the Government is fundamental to the formation of a tax policy. Yet tax experts usually take a somewhat cursory glance at public expenditures and then plunge into a detailed treatment of tax incidence and trends.

Specialists in public finance are not wholly to blame for their limited study of public expenditures. Public accounts are not set up on any comparable basis, to permit appropriate summaries of local, State, and Federal expenditures. Even within governmental jurisdictions procedures vary from department to department and year to year. Functional classifications of appropriations and expenditures, the quality and quantity of services rendered, the unit costs of service, and the resulting social and economic benefits of Government activities are almost entirely lacking. Yet without such functional analyses of public expenditures—

> * * * planning and programming are illusory; budgeting is usually a guess or at best an approximation; apportionment of public costs according to capacity, needs, or benefits is likely to accentuate maladjustments instead of relieving them; and even the more customary elements of the governmental machine, such as accountancy, jog and bump along the road.[1]

Colm declares that the fundamental problems of taxation and public credit cannot be solved without adherence to some underlying and motivating theory of public expenditures. He finds it helpful to distinguish between types of public expenditures according to their "productivity".[2] The first of these are expenditures for self-liquidating projects. While some conservatives are skeptical of the advisability of Government expenditures even for such items, many others regard the possibility of self-liquidation as the test of the desirability of a project. Such a limitation of Government expenditures would not satisfy the needs of the people, for there is a whole array of public services in a democracy which by their very nature never can or should become self-liquidating.

There is a second type of public expenditure whose projects, such as the erection of bridges and roads, add to the resources of the State. While these expenditures may finally result in increased public revenues, such returns tell very little of the urgency for public as compared with private expenditures, nor are they an indication of the value of such expenditures.

The third distinguishable form of public expenditure increases the productivity of labor generally, although probably indirectly. For example, flood control, vocational education, and the collection and dissemination of economic statistics are productive activities which

[1] Wylie Kilpatrick, "Classification and Measurement of Public Expenditures," the Annals of the American Academy of Political and Social Science, Government Finance in the Modern Economy, Philadelphia, 1936, p. 19.

[2] Gerhard Colm, "Theory of Public Expenditures," the Annals of the American Academy of Political and Social Science, Government Finance in the Modern Economy, Philadelphia, 1936, pp. 2-4.

can properly be carried on by Government at public expense for that purpose.

In the last analysis, however, it is impossible to limit government expenditures to "productive" projects, for economic measures of productivity do not apply to many public expenditures. The true criteria for such projects, within the limits of the community's ability to provide them, are the public desire for them and the relative ability of public or private agencies to provide them most efficiently.

Some projects may appear to have little economic value, but their inclusion in the public budget can be defended on the ground that the cultural life and safety of the state require them. The economic value of others may be very indirect, yet their social value may be high. With still others, the economic returns accrue only after prolonged periods of delay, but they are so essential to the future welfare of the people that they are provided through public expenditures. Moreover, public expenditures are used to bridge gaps and lacks in the private economy which have resulted in human suffering and insecurity beyond the blame or correction of individuals.

People who talk of limiting or expanding government expenditures are usually motivated by their individual or group interest. As Colm well says:

> It is not scientific calculation but the political struggle that defines this line of demarcation, and defines it every day anew.[3]

Both public opinion and government practice have for some time tended toward expansion of the number and quality of public services. But this trend has met the vigorous opposition of those who feel that such extensions handicap the private sector of the economy, retard recovery, and limit the sphere of private business activity. The cry goes up that the government is invading the business field through regulation and competition, that the state is being increasingly "socialized." Statistics presented on the subject are usually such sweeping generalizations as, "We have 25 percent socialism in the United States today,"[4] which utterly fail to distinguish between public expenditures required by such mechanisms of the private economy as price competition, or those which increase the efficiency and profits of private business.

In a complex social system such as has developed in the United States since the Civil War, and more particularly with the widespread use of electric power and modern technology after the turn of the century, the demands made upon government to act as arbiter, agent, intercessor, banker, guardian, teacher, and guide grow almost daily. These demands come from all levels of the population, each seeking help in its difficulties. Not the least diffident or backward among petitioners when depression and fear overtake them are those very captains of business who periodically denounce governmental restraints or regulations imposed in order to establish some measure of equality among competitors in the market place.

Today, the activities of government are varied and complex, as are the problems of the society which it seeks to serve. The government's economic responsibility is so great that it can no longer be regarded as simply an adjunct of the economic system. Instead, it is

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[3] Ibid., p. 9.
[4] Ray E. Untereiner, The Tax Racket, Philadelphia, 1933, p. 42.

an integral part of that system, profoundly influencing the agricultural, business, and labor activities of the country. No longer is it possible to consider its costs as if they were only items in a budget of government activities narrowly limited in their scope and purpose. The expenditures of government must now be considered "not merely from a fiscal point of view; they must also be considered from the point of view of the whole economic system." [5]

President Roosevelt gave voice to the significance attached to government expenditures in his 1941 budget message, saying in part:

> In these figures over a course of years are mirrored the changing attitude of the people toward the growing needs which they expect their Government to meet. The relatively low and constant level of expenditures throughout the nineteen twenties accurately reflected the relatively minor role played by government in those years. The substantial increase in the past decade is a reflection of the degree to which the country, in response to changing economic and international conditions and changing attitudes, has turned to the government to meet social needs recognized by our citizenship. Nowhere are our democratic processes so faithfully depicted.[6]

[5] Colm, op. cit., p. 11.

[6] Franklin D. Roosevelt, The Budget of the United States Government, 1941, Washington, D. C., 1940, p. v.

GOVERNMENT EXPENDITURES IN 1937 AND 1938

The latest statistics on the total expenditures of the various levels of government, local, State, and Federal are for 1937. Only estimates are available for 1938. In 1937 the various governments in the United States expended the following sums of money:[7]

Government	Amount	Percentage
Federal	$8, 386, 000, 000	48. 8
States	2, 851, 000, 000	16. 6
Local	5, 950, 000, 000	34. 6
Total	17, 187, 000, 000	100. 0

While it is clear that the Federal Government dominates the spending of public moneys, this total conceals certain facts needed to explain the role played by the National Government. The principal expenditure of the Federal Government throughout the years has been for military purposes, either in payment for past or preparation for future wars. In 1937 almost a fourth of all Federal expenditures went for this purpose, while the States spent only a minor sum, and the local governments nothing at all.

Table 16 summarizes the various political jurisdictions which make public expenditures. In 1935 there were 175,418 such spending units, of which local school districts comprised over 70 percent. The figures indicate the tenacity with which these organizations hold onto vestiges of control long after economic and social changes have made them obsolete. This hodgepodge is a historical product not adapted to the efficient budgeting of government expenditures. Townships, long since made unnecessary by modern methods of transportation and public administration, still overlap other political jurisdictions, and cause confusion, unnecessary expense, and delay in public and private business.

TABLE 16.—*Political jurisdictions of the United States and their employees (except employees on work relief) 1935*

Jurisdiction	Number	Employees	
		Number	Percentage
Federal Government	1	1, 049, 900	30. 5
States	48	377, 700	11. 0
Municipalities (incorporated)	16, 366	1, 258, 800	36. 5
Counties	3, 053	756, 400	22. 0
School districts	127, 108		
Towns, townships, and other civil divisions	28, 842		
Total	175, 418	3, 442, 800	100. 0

Source: Adapted from National Resources Committee, The Structure of the American Economy, pt. 1, Washington, 1939, pp. 331, 334.

[7] See table 20, fig. 3.

Over 3,000 counties conduct a whole array of government activities including taxation, police protection, school supervision, poor relief, and other welfare services, many of which duplicate State or Federal services, or are inefficiently organized and inadequately budgeted. This complex system of county governments is a hold-over from horse-and-buggy days, when county seats were important centers and county governments were essential units of public administration. The reorganization of such governments into larger, more efficient, less costly units is long since overdue, and constitutes one of the major prospects for substantial economies in public expenditures.

The number of urban and village governments has multiplied until they now number almost 10 percent of all governmental bodies. But their share of government expenditures is far greater than 10 percent. In many instances a municipality within a county has a budget several times larger than the county budget itself. They employ over a third of all regular public employees. The services which they render have grown rapidly, covering not only the usual activities of police and fire protection, sanitation, maintenance of streets, roads, parks, monuments, etc., but also invading the field of public utilities to supply water, gas, and electricity to city dwellers. The further almost unabated growth of urbanization will probably bring increases in the number and size of municipalities and greater emphasis on municipal government expenditures.

The States almost duplicate the list of Federal expenses, except for naval expenditures, insular and diplomatic costs, customs, and foreign trade. The development of State power has long been hampered by the jealousy of local governments for control over public services. But in recent years, with the break-down in local property tax structures, and the increasing use of income and property taxes which cannot be efficiently administered by local governments, the power of the States has grown rapidly. Many States have established State police, traffic control, highway systems, fire-prevention systems, basic support for public schools, and regulation of business and professional standards. Thus, in California, for example, 452 different services have been enacted into law since 1850, 367 of which are now furnished by the State, according to table 17.

TABLE 17.—*Functions created by State laws in California*

Type of service	Number of services	Percentage of total number	Type of service	Number of services	Percentage of total number
General government	38	10.4	Prisons and reformatories	10	2.7
Agriculture	66	18.0	Public protection	7	1.9
Public health and safety	67	18.3	Parks, museums, monuments, recreation	20	5.4
Business regulation and taxation	48	13.1	Highways, waterways, irrigation	8	2.2
Education	51	13.9			
Social welfare	35	9.5			
Professional standards	17	4.6	Total	367	100.0

Source: H. Dewey Anderson, Our California State Taxes, Facts and Problems, Stanford University Press, Stanford University, 1937, p. 6.

A functional break-down of total expenditures for the several levels of government is not possible, because of the failure of reporting agencies to keep the necessary records.

Table 18, chart 2, is based on the Treasury Department's estimate of the functioning grouping of Federal, State, and local government expenditures for 1938. Attention is called to the last column of the table, giving the percentage distribution of the 12 functions listed. "Relief, public welfare, and social security," relatively small items in predepression budgets, account for 17 percent of all governmental expenditures. Education is the next most costly service, requiring 13.3 percent of all 1938 expenditures. "All other" expenditures include regular government executive and legislative functions, as well as a wide variety of miscellaneous activities. This, with the two items already mentioned, makes up 50 percent of all government costs. No other function listed spends as much as 10 percent of the total.

TABLE 18.—*Federal and estimated State and local general government expenditures, fiscal year ending in 1938*

[Dollar figures in millions]

Function	Expenditures from own sources [1]				Intergovernmental grants [2]				Expenditures for own functions [3]				
	Federal	State	Local	Total	Federal to State	Federal to local	State to local	Local to State	Federal	State	Local	Total: Amount	Total: Percent
1. Education	$177	$818	$1,418	$2,413	$58	$102	$628		$17	$248	$2,148	$2,413	13.3
2. Highways and streets	260	900	510	1,670	219	24	300	$23	17	842	811	1,670	9.2
3. Agriculture and natural resources [4]	1,000	73	3	1,076	27		2		973	98	5	1,076	5.9
4. National defense	1,610	12		1,622	2				1,608	14		1,622	8.9
5. Police and other protection	44	138	566	748					44	138	566	748	4.1
6. Relief, welfare, and social security	2,182	637	266	3,085	260		315	9	1,922	591	572	3,085	17.0
7. Net additions to social-security reserves [5]	489	516		1,005	41				448	557		1,005	5.5
Social-security reserves	(574)	(707)		(1,281)	(41)				(533)	(748)		(1,281)	
Withdrawals included in (6) above	(85)	(191)		(276)					(85)	(191)		(276)	
8. Health and hospitals	36	270	265	571	16		7		20	279	272	571	3.1
9. Interest	926	121	592	1,639					926	121	592	1,639	9.0
10. All other	902	738	2,001	3,641	10	46	136		846	612	2,183	3,641	20.0
11. Total expenditure	7,626	4,223	5,621	17,470	633	172	1,388	32	6,821	3,500	7,149	17,470	
12. Debt retirement	65	135	529	729			12		65	123	541	729	4.0
13. Total disbursement, including debt retirement	7,691	4,358	6,150	18,199	633	172	1,400	32	6,886	3,623	7,690	18,199	100.0

[1] Excludes expenditures from grants received from another jurisdiction.
[2] Includes shared taxes and comprises part of "Expenditures from own sources."
[3] Includes expenditures from own sources and from "Intergovernmental grants" received, but excludes grants paid other jurisdictions.
[4] Includes such items as flood control, reclamation, river and harbor improvement, and Panama Canal expenditures.
[5] Interest on invested social-security reserves is included in item (9) below.

NOTE.—The classification of expenditures here used varies from and is not as detailed as classifications employed in the reports of the Bureau of the Census and elsewhere. The differences are necessitated by the inadequacy of the data available for estimating purposes. The class "All other" comprises the aggregate of all the unclassified expenditures.

Source: Adapted from the Bulletin of the Treasury Department, August 1939, p. 4.

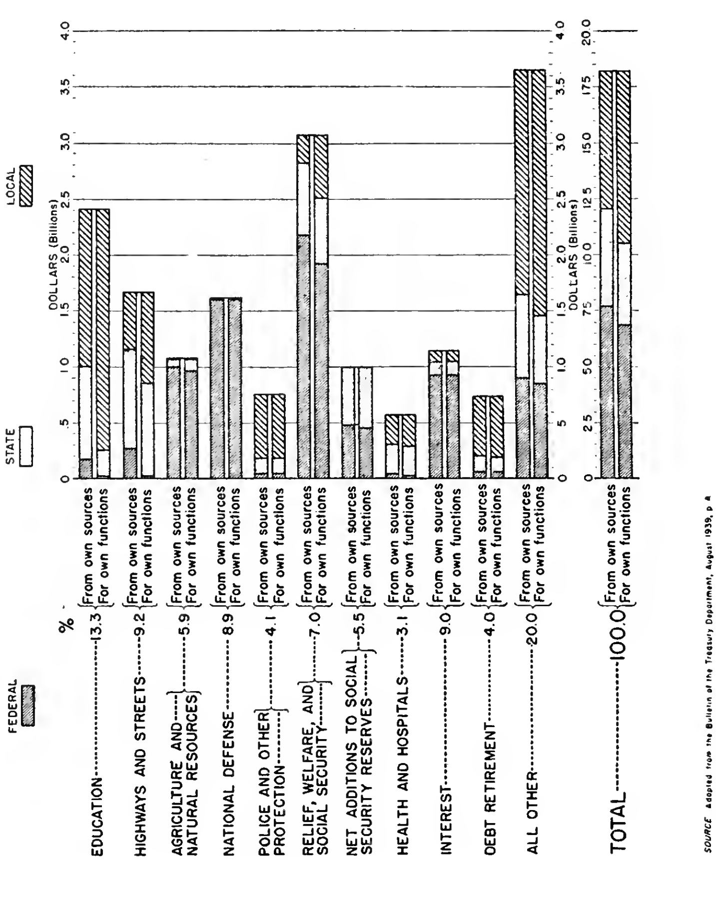
The table displays the expenditures of governments from their own sources, grants between governmental jurisdictions, and expenditures by governments for their own functions. Reading across the table, of the expenditures for education, for example, it appears that the Federal Government expended $177,000,000, of which it granted $58,000,000 to States, $102,000,000 to local governments, and expended $17,000,000 through its own educational activities.

The interdependence of the various governments is apparent. In 1938 it is estimated that $2,237,000,000, or 12.3 percent of all alloca-

CHART 2

GOVERNMENTAL EXPENDITURES BY LEVEL OF GOVERNMENT

UNITED STATES, FISCAL YEAR ENDING 1938



tions were transferred from the government which collected the funds to the one which spent them. The various levels of government did not share alike in such exchanges, for the Federal Government granted $805,000,000, or 10.5 percent of all Federal expenditures, to other governments; local governments made grants of $32,000,000, which was only 0.5 percent of their total expenditures; while the State governments, which are rapidly becoming collection agencies for their political subdivisions, made grants totaling $1,400,000,000, or 32.3 percent of all their expenditures.

The Federal Government makes grants to other governments for all the functions listed excepting police and other protection, and

debt service. Besides outright grants and subsidies, the National Government performs other costly services, most of which are conducted within and for the States. Most of the Federal grants are directed through State channels, although some are made to local governments or to smaller political and public agencies.

State grants are made to local governments for education, highways and streets, agriculture, relief and welfare, health, and general governmental purposes. Shared taxes and funds are being used increasingly as a means of making grants to localities, but in some States unearmarked allotments are made which can be used by local governments as they choose. With the shift of road construction and maintenance from local governments to States, in some instances funds collected for their care are allocated by the localities to the States. Such items and certain payments in the social-welfare programs comprise the allocations from local governments to States.

Table 19 shows a percentage distribution of the expenditures of the several levels of government. The figures in parentheses indicate the order of importance of the various expenditures, which differs from one level of government to another. For example, the cost of relief, welfare, and social security is the heaviest burden on the Federal Government, where it accounts for 28.4 percent of all expenditures. Among the States it ranks fourth and costs 14.6 percent of all appropriations. In local governments it is relatively insignificant, ranking seventh and costing only 4.3 percent of the total.

TABLE 19.—*Percentage distribution of expenditures—Federal, and estimated State and local, fiscal year 1938*

[Figures in parentheses indicate the rank of the items]

Function	Federal	State	Local	Total
Education	2.3 (8)	18.8 (2)	23.1 (2)	13.3 (3)
Highways and streets	3.4 (7)	20.6 (1)	8.3 (6)	9.2 (4)
Agricultural and natural resources	13.0 (3)	1.7 (10)		5.9 (7)
National defense	20.9 (2)	.3 (11)		8.9 (6)
Police and other protection	.6 (10)	3.2 (7)	9.2 (4)	4.1 (9)
Relief, welfare, social security	28.4 (1)	14.6 (4)	4.3 (7)	17.0 (2)
Net additions to social-security reserves	6.4 (6)	11.8 (5)		5.5 (8)
Health and hospitals	.5 (11)	6.2 (6)	4.3 (8)	3.1 (11)
Interest	12.0 (4)	2.8 (9)	9.6 (3)	9.0 (5)
All other expenditures	11.7 (5)	16.9 (3)	32.6 (1)	20.0 (1)
Debt retirement	.8 (9)	3.1 (8)	8.6 (5)	4.0 (10)
Total	100.0	100.0	100.0	100.0

Source: Adapted from data in Bulletin of the Treasury Department, August 1939, p. 4.

In the Federal Government, defense, relief, and welfare expenditures are most important; among the States, expenditures for highways and streets and education rank first; while in local governments general administration and education are of principal concern.

All governments make expenditures for the same or similar functions, excepting that the local governments do not provide for national defense nor build up social-security reserves. The overlapping of government functions and expenditures is great. In some instances the field has been allocated so that each government performs a specific and different task. In others, shared costs or grants-in-aid enable one branch of government to obtain large enough funds to conduct the service satisfactorily. It is increasingly recognized that the limited resources of smaller units of government require such help from larger government bodies.

TRENDS IN EXPENDITURES OF FEDERAL, STATE, AND LOCAL GOVERNMENTS

In tables 20 and 21, charts 3 and 4, are shown the trends in expenditures of the various governmental jurisdictions.[8] In the 16 years from 1923 to 1938, total public expenditures increased from $8,850,000,000 to $16,805,000,000, a gain of 90 percent. But this enormous gain was not the result of a steady annual increase. Instead, there was a relatively small annual growth in the 1920's, ranging from 2.5 to 6.0 percent, and providing a total increase of 34.9 percent between 1923 and 1930. The 2 years following 1929 saw relatively small annual increases, and in 1933 all levels of government curtailed expenditures. With the advent of the New Deal, Federal expenditures increased 56 percent in 1934, which raised the total of all government expenditures 20 percent to a new high level of $13,604,000,000. Further annual increases occurred until 1937 when the considerable recovery of the national economy led to a tapering off of government expenditures.

TABLE 20 —*Governmental expenditures, Federal, State, and local, 1923–38* [1]

[000,000 omitted]

Year	Total		Federal		State		Local	
	Amount	Percent increase	Amount	Percent increase	Amount	Percent increase	Amount	Percent increase
1923	$8,850		$3,058		$1,208		$4,584	
1924	9,395	6.2	2,812	−8.7	1,402	16.1	5,181	13.0
1925	9,869	5.0	2,801	−.4	1,493	6.5	5,575	7.6
1926	10,113	2.5	2,779	−.8	1,499	.4	5,835	4.7
1927	10,453	3.4	2,738	−1.5	1,614	7.7	6,101	4.6
1928	10,972	5.0	2,798	2.2	1,774	9.9	6,400	4.9
1929	11,611	5.8	2,957	5.7	1,943	9.5	6,711	4.9
1930	11,943	2.9	3,152	6.6	2,170	11.7	6,621	−1.3
1931	12,390	3.7	3,560	12.9	2,298	5.9	6,532	−1.3
1932	13,129	6.0	4,434	24.6	2,257	−1.8	6,438	−1.4
1933	11,284	−14.1	3,793	−14.5	2,067	−8.4	5,424	−15.8
1934	13,604	20.6	5,947	56.8	2,044	−1.1	5,613	3.5
1935	15,011	10.3	6,933	16.6	2,230	9.1	5,848	4.2
1936	17,009	13.3	8,611	24.2	2,433	9.1	5,965	2.0
1937	17,187	1.0	8,386	−2.6	2,851	17.2	5,950	−.3
1938 [2]	16,805	−2.2	7,192	−14.2	[3] 9,613			

[1] The series for total expenditures and Federal expenditures have been revised. The data for Federal expenditures given here do not correspond with earlier Conference Board figures on cost of government. Prior to this study, trust fund expenditures were included, with the exception of the special funds established by the Social Security Act and the Railroad Retirement Act. In this table trust fund charges are excluded. The Federal data for 1932 to 1937 have also been revised in order to conform to the change in Federal accounting procedure that became effective on July 1, 1938. At that time expenditures incident to the operation of the Reconstruction Finance Corporation, Commodity Credit Corporation, and Export-Import Bank of Washington were excluded from expenditures chargeable against general and special account receipts.

[2] Derived from Bulletin of the U. S. Treasury Department, August 1939, and estimate of the National Industrial Conference Board. See footnote 8 below.

[3] Total, State and local.

Source: Based on National Industrial Conference Board, Enterprise and Social Progress, New York, 1939, p. 161; Conference Board Economic Record, Sept. 15, 1939, pp. 93, 94.

[8] Owing to ambiguities, differing time spans, etc., data on tax trends supplied by different authorities are divergent. Thus, the National Industrial Conference Board series, used for all except part of the 1938 data in table 20, estimates total expenditures for that year including social security allotments at $16,800,000,000, while the extract from the Bulletin of the Treasury Department, August 1939, estimates the total at $17,470,000,000. The 1938 figures offered in table 20 are compiled as follows: The net additions to social security reserves of $1,005,000,000 is taken from the calculations of the Treasury Bulletin and added onto the figures of the National Industrial Conference Board series for 1938 to make a total of "actual and estimated expenditures for 1938." Doing so adds only $5,000,000 or a fractional percentage to the total, but the distribution among levels of government is altered somewhat.

TABLE 21.—*Percentage of Government expenditures by levels of government, 1923–38*

Year	Federal	State	Local	Year	Federal	State	Local
1923	34.6	13.6	51.8	1931	28.7	18.6	52.7
1924	29.9	14.9	55.2	1932	33.8	17.2	49.0
1925	28.4	15.1	56.5	1933	33.6	18.3	48.1
1926	27.5	14.8	57.7	1934	43.7	15.0	41.3
1927	26.2	15.4	58.4	1935	46.2	14.8	39.0
1928	25.5	16.2	58.3	1936	50.6	14.3	35.1
1929	25.5	16.7	57.8	1937	48.8	16.6	34.6
1930	26.4	18.2	55.4	1938	42.8	57.2	

Source: Based on table 20.

From 1930 to 1938 the gain in total expenditures was 40.7 percent. Thus in the percentage increase in the two time spans, 1923–30 and 1930–38, somewhat the same percentage increase took place. But the increase in the first period added $3,093,000,000 to the annual Budget, while the last one added $4,862,000,000 to annual expenditures. During both prosperity and depression and under both Democratic and Republican administrations total Government expenditures increased markedly. In both instances they represent the demand for more, and more costly, Government services.

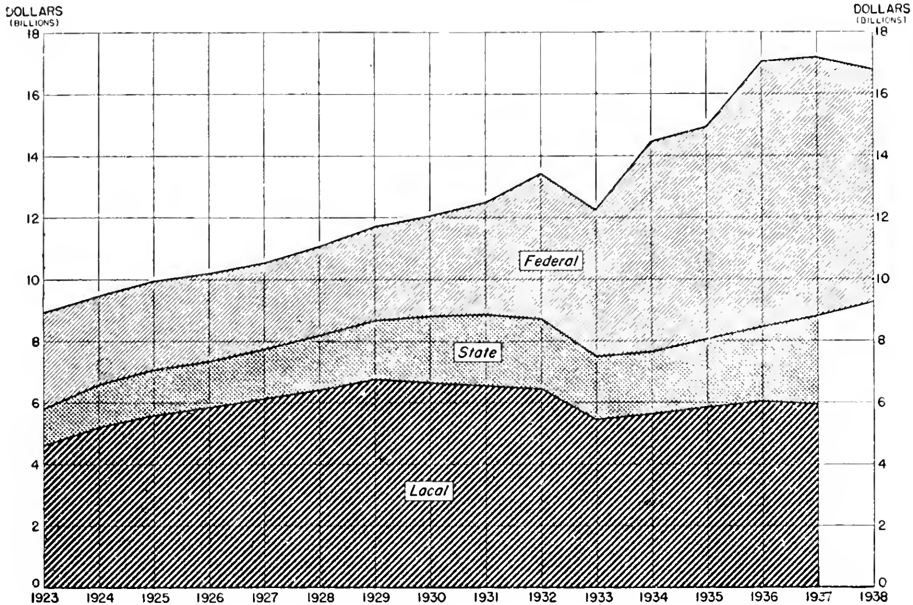
President Roosevelt explained the Federal administration's policy respecting budgetary control and expenditures as follows:

> * * * In the early thirties—prior to 1933—fiscal policy was exceedingly simple in theory and extraordinarily disastrous in practice. It consisted in trying to keep expenditures as low as possible in the face of shrinking national income. Persistence in this attempt came near to bankrupting both our people and our Government.
>
> Following 1933 the fiscal policy of the Government was more realistically adapted to the needs of the people. All about were idle men, idle factories, and idle funds, and yet the people were in desperate need of more goods than they had the purchasing power to acquire. The Government deliberately set itself to correct these conditions by borrowing idle funds to put idle men and idle factories to work.
>
> The deliberate use of Government funds and of Government credit to energize private enterprise—to put purchasing power in the hands of those who urgently needed it and to create a demand for the products of factory and farm—had a profound effect both on Government and on private incomes. The national income in 4 years rose 69 percent, from 42 billion dollars in 1933 to 72 billion dollars in 1937, the largest absolute rise for any 4-year period in our history, not even excepting the rise during the World War. Tax revenues rose from 2 billion dollars in the fiscal year 1933 to over 5 billion dollars in the fiscal year 1937, primarily because the people had more income out of which to pay taxes. The people paid 3 billion dollars more in taxes but they had nearly 10 times more than that, or 30 billion dollars, to spend on other things. This statement deserves a headline.
>
> Rapid progress was made toward a balanced Budget. By the calendar year 1937 excess of Government cash outgo over Government cash income had dropped to 331 million dollars.
>
> Unfortunately, just at the time when it seemed that the Federal Government would be able safely to balance its budget on the basis of a national income of approximately 75 billion dollars, maladjustments in the economic system began to appear and caused a recession in economic activity. The recession was due to a variety of causes stemming in the main from over-optimism which led the Government to curtail its net expenditures too abruptly, and business to expand production and raise prices too sharply for consumers' purchasing power to keep pace. A large volume of unsold goods piled up.
>
> If the recession were not to feed on itself and become another depression, the buying power of the people, which constitutes the market for the products of industry and agriculture, had to be maintained. To this end, in the spring of 1938, I recommended a further use of Government credit and the Congress acted on my recommendation.

CHART 3

GOVERNMENTAL EXPENDITURES, FEDERAL, STATE AND LOCAL

UNITED STATES, 1923-1938

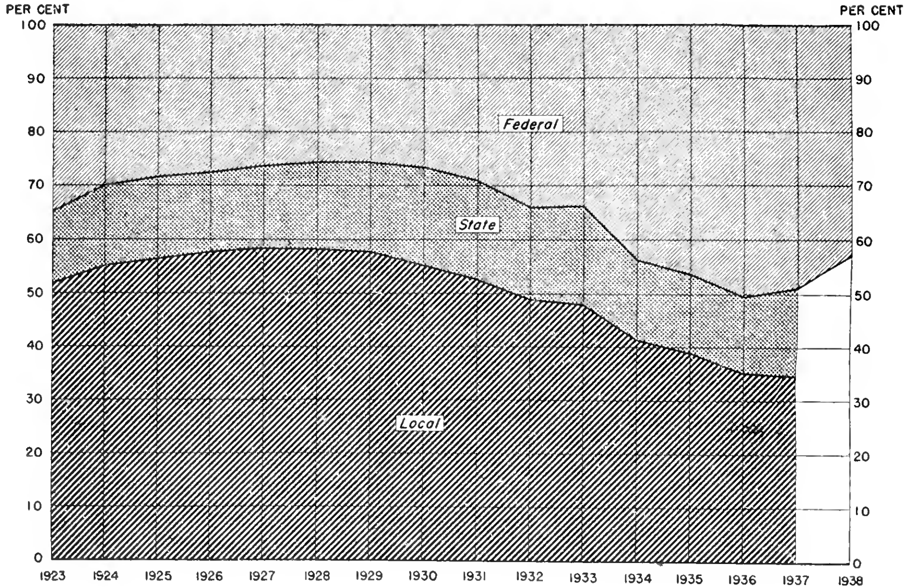


SOURCE: Adopted from ENTERPRISE AND SOCIAL PROGRESS, National Industrial Conference Board, Inc., New York, 1939, p 168
1938 figure, Bulletin of the U S Treasury Department, August, 1939, and estimate of the National Industrial Conference Board, Inc.

CHART 4

GOVERNMENTAL EXPENDITURES, FEDERAL, STATE AND LOCAL

UNITED STATES, 1923-1938



Source: Adapted from National Industrial Conference Board, ENTERPRISE AND SOCIAL PROGRESS, 1939, p 161, and Data in Bulletin of the U S Treasury Department, August, 1939, p 4

The soundness of this realistic approach to a fiscal policy related to economic need was again strikingly demonstrated. In place of the 42-billion-dollar decline in national income that occurred from 1929 to 1932, the decline from 1937 to 1938 scarcely exceeded 8 billion dollars. In place of a 4-year period of liquidation and deflation, productive activity turned up within 9 months. By 1939, in terms of dollars, the national income closely approached, and, in terms of real production and consumption, making allowance for the lower level of prices, was equal to that of 1937.

The experience of 1938–39 should remove any doubt as to the effectiveness of a fiscal policy related to economic need. The wise exercise of such a fiscal policy imposes grave responsibility on the Government. Government must have the wisdom to use its credit to sustain economic activity in periods of economic recession and the courage to withhold it and retire debt in periods of economic prosperity. And let us not forget that the withholding of Government credits in time of need for political advantage is no less reprehensible than its profligate use at any time.[9]

A further examination of table 20 indicates that the expenditures of various levels of government did not change in the same way as the total. Also, the two periods 1923–30 and 1930–38 show different results, as follows:

[000,000 omitted]

Period	Gain					
	Federal		State		Local	
	Amount	Percent increase	Amount	Percent increase	Amount	Percent increase
1930 over 1923	$94	3.1	$962	79.6	$2,037	44.4
1938 [1] over 1930	4,040	128.2	944	43.5	−122	−1.8
1938 [1] over 1923	4,134	135.2	1,906	157.8	1,915	41.8

[1] Assuming the same proportion of State to local expenditures in 1938 (table 20) as in 1937.

Most of the gain in Federal expenditures occurred after 1933. The increase in money budgeted during the 1920's was small, as was the percentage gain; but during the thirties the amount advanced over $4,000,000,000, and the percentage gain was 128.

The situation was decidedly different with State expenditures, which increased more in the first period than in the second, although substantial gains were made in both. In fact, State expenditures have grown proportionately more since 1923 than those of any other level of government. The States have been forced to assume an increasing share of the burden formerly carried by local governments as well as extending their own services. Yet the burden of State governments is much less in amount than that of either the Federal or local governments.

A substantial increase in local government costs occurred during the 1920's, followed by a small decline in the thirties as the other levels of government assumed burdens formerly borne by local jurisdictions. The percentage increase in local expenditures from 1923 to 1938 was much less than for Federal or State governments, exhibiting an increase of $1,915,000,000, or about two-fifths.

Table 21 gives the percentage distribution of total government expenditures by levels of government. In 1923 the local governments accounted for more than half of the relatively small sum then ex-

[9] Budget Message of the President, accompanying the Budget of the United States Government for the fiscal year ending June 30, 1941.

pended; by 1937 they spent approximately a third of the larger total. Local government expenditures reached the peak of their relative importance in the latter part of the 1920's when they comprised approximately 58 percent of all government expenditures. Thereafter State and Federal budgets bore an increasing share of government costs. Local expenditures declined from 1930 to 1933 both in amount and in proportion of the total, increased somewhat in 1934, 1935, and 1936, and declined very slightly in 1937.

During the twenties, State expenditures hovered around 15 percent of all government expenditures, ranging from 13.6 percent in 1923 to 16.7 in 1929. In 1930 the States were called upon to relieve distressed local governments, and despite their own limited tax resources, they paid 18.2 percent of all Government expenditures. Their percentage of the total remained at approximately that level until in 1933 and 1934 the Federal Government launched a much enlarged relief and welfare program. Thereafter, while State governments spent more money, their proportion of the total remained about the same as during the twenties.

Federal expenditures rose from a low of 25 percent of the total in 1928–29 to a high of 50.6 percent in 1936. The greatest burden of government expenditures was borne by local units until 1934, when it shifted to the Federal Government. It is this shift which has brought Federal fiscal and tax policies into such prominence and subjected them to such a barrage of criticism. No longer is the Federal budget a few millions, devoted largely to defraying the cost of war and defense. Today it consists of several hundred items covering a wide range of activities and services, many of which were formerly the province of State and local governments, many performed by private agencies, and some nonexistent.

FEDERAL GOVERNMENT EXPENDITURES FROM 1915 TO 1940

In table 22, chart 5, the expenditures of the National Government from 1915 to 1940 are divided into three broad groups: military functions; interest on debts, loans, and investments; and all other Government functions. Amounts, percentages, and increases or decreases of yearly expenditures are shown. In 1915 the total cost of the national administration was only $761,000,000; by 1940 the total budgeted reached $9,636,000,000. The yearly figures show important changes in government policy and practice, but the divisions are too broad to provide specific information.

TABLE 22.—*Federal expenditures, 1915–40 (excluding debt retirement)*

[Dollar figures in millions]

Fiscal year ending June 30—	Military functions			Interest on debt, loans, and investments			All other Government functions			Total	
	Amount	Percent	Percentage change	Amount	Percent	Percentage change	Amount	Percent	Percentage change	Amount	Percentage change
1915	$436	57.3	......	$52	6.8	......	$273	35.9	......	$761	......
1916	450	60.7	3.2	54	7.3	3.8	237	32.0	−13.2	741	−2.6
1917	1,726	82.7	283.6	110	5.3	103.7	250	12.0	5.5	2,086	181.5
1918	13,096	94.9	658.7	418	3.0	280.0	281	2.1	12.4	13,795	561.3
1919	17,458	92.1	33.3	1,109	5.9	165.3	385	2.0	37.0	18,952	37.4
1920	4,315	70.3	−75.3	1,285	20.9	15.9	540	8.8	40.3	6,140	−67.6
1921	2,520	56.4	−41.6	1,330	29.8	3.5	617	13.8	14.3	4,467	−27.2
1922	1,530	47.9	−39.3	1,162	36.4	−12.6	504	15.8	−18.3	3,196	−28.5
1923	1,329	41.0	−13.1	1,254	38.6	7.9	662	20.4	31.3	3,245	1.5
1924	1,210	41.1	−9.0	1,194	40.5	−4.8	542	18.4	−18.1	2,946	−9.2
1925	1,155	37.9	−4.5	1,246	40.9	4.4	644	21.2	18.8	3,045	3.4
1926	1,178	38.3	2.0	1,269	41.2	1.8	630	20.5	−2.2	3,077	1.1
1927	1,194	40.4	1.4	1,117	37.8	−12.0	644	21.8	2.2	2,955	−4.0
1928	1,257	40.5	5.3	1,160	37.3	3.8	688	22.2	6.8	3,105	5.1
1929	1,305	39.6	3.8	1,157	35.1	−.3	834	25.3	21.2	3,296	6.2
1930	1,537	44.8	17.8	975	28.4	−15.7	922	26.8	10.5	3,434	4.2
1931	1,725	45.2	12.2	896	23.5	−8.1	1,196	31.3	29.7	3,817	11.2
1932	1,760	38.5	2.0	1,500	32.8	67.4	1,314	28.7	9.9	4,574	19.8
1933 [1]	1,482	38.3	−15.8	945	24.5	−37.0	1,437	37.2	9.4	3,864	−15.5
1934	1,048	17.4	−29.3	1,717	28.6	81.7	3,246	54.0	125.9	6,011	55.6
1935	1,267	18.1	20.9	1,319	18.8	−23.2	4,424	63.1	36.3	7,010	16.6
1936	3,228	37.2	154.8	875	10.1	−33.7	4,563	52.7	3.1	8,666	23.6
1937	2,023	24.0	−37.3	1,073	12.7	22.6	5,346	63.3	17.2	8,442	−2.6
1938	1,552	20.4	−23.3	1,228	16.1	14.4	4,846	63.5	−9.4	7,626	−9.7
1939	1,601	17.4	3.2	1,234	13.4	.5	6,375	69.2	31.6	9,210	20.8
Estimated, 1940	1,998	20.7	24.8	1,502	15.6	21.7	6,136	63.7	−3.7	9,636	4.6

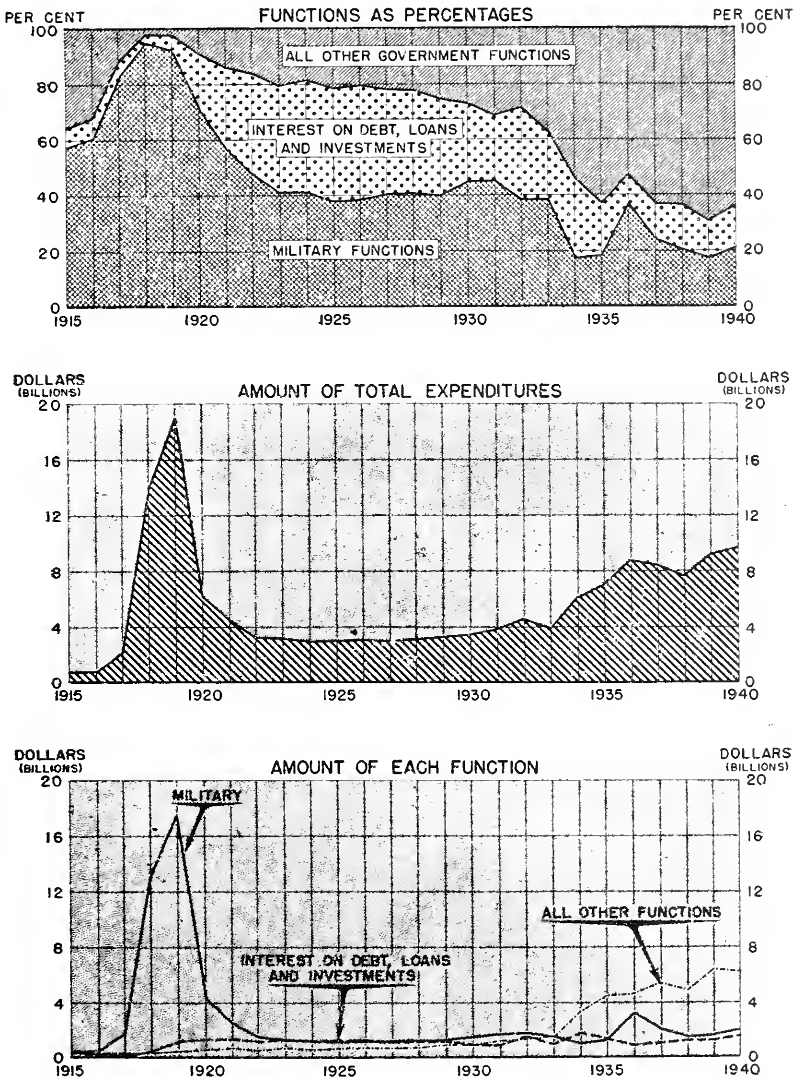
[1] A change in the basis of classification of expenditures beginning with the figures for 1933 resulted in reducing the amounts after 1932 for "Military functions" and "All other governmental functions," and in increasing the amounts for "Interest on debt, loans, and investments."

Source: Adapted from data furnished by Division of Research and Statistics, Federal Reserve Board, Washington, D. C., 1940.

CHART 5

EXPENDITURES OF THE UNITED STATES GOVERNMENT

BY MAJOR GOVERNMENTAL FUNCTIONS 1915–1940*



SOURCE: Adapted from data furnished by Division of Research and Statistics, Federal Reserve Board, Washington, D. C.

*1940 estimated

The sharp increases in expenditures have been the result of two forces—military operations or great economic crises. Following these abrupt rises in expenditures have come periods of reduced budgets; however, the accumulation of additional services and added debt charges has forced Government operating requirements to a new plateau, from which it seems unlikely that we will be able to return to pre-war levels.

Military expenditures have formed the major single group of Federal functions during the past 26 years. At their peak, in 1918, they constituted 95 percent of all National Government costs; while in 1939, the lowest year, the figure dropped to 17.4 percent. The greatest allotment for military activity was $17,458,000,000 in 1919, at the close of the last war. Thereafter, expenditures declined until 1925, when $1,155,000,000 was appropriated for military functions. After that they increased yearly, until they reached a peak of $1,750,000,000 in 1932. Then, with the depression of 1933 and 1934, appropriations were reduced to only a little over $1,000,000,000 in 1934, the lowest expenditure for any year since 1916. The 1936 appropriations for military purposes was unduly weighted with soldiers' bonus payments, but even without these, from $1,000,000,000 a year to almost $2,000,000,000 has been spent for military purposes since the trough of the depression.

The cost of Federal indebtedness has risen as a result of the World War, when expenditures totaling $39,000,000,000 were incurred, mostly in the form of government bonds.[10] Yearly interest and service payments on the negligible Federal debt prior to 1917 were slightly more than $50,000,000. During the 1920's the annual payments exceeded a billion dollars, ranging from $1,117,000,000 in 1927 to $1,330,000,000 in 1921. From 1920 until 1935 the annual debt burden of the Federal Government was more than a fifth of all expenditures, ranging up to 41.2 percent in 1926. During the 1930's interest payments on debts, loans, and investments have extracted more than a billion dollars from the Treasury in every year except 1930, 1931, 1933, and 1936. Expenditures for these purposes in 1940 were more than $1,500,000,000, the largest of any post-war year except 1934. But as other Government costs rose during the 1930's as compared with the 1920's, the proportion of such debt payments to the total declined.

The cost of "all other" government expenses reached a low of $237,000,000 in 1916 and a high of $6,375,000,000 in 1939. Their proportion of all Government expenditures was lowest in 1919, when they constituted only 2 percent of the total, and reached its peak in 1939 with 69.2 percent. During the 1920's the Federal Government conducted relatively few regular services, costing from a half to three-quarters of a billion dollars annually. But with the advent of the depression, demands for Government aid increased costs at an astounding rate. From 1933 to 1934, the broad Federal program of relief, agricultural, and business aid increased civil expenditures from $1,437,000,000 to $3,246,000,000, a gain of 125 percent in a single year. This was the most abrupt and drastic revision of general Government functions ever recorded in our history. Thereafter, these general costs remained at an unusually high level, constituting from a half to more than two-thirds of all Government expenditures.

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[10] Bernard M. Baruch, in hearings before the War Policies Commission, H. Doc. 163, 72d Cong., 1st sess., p. 33.

In table 23, charts 6 and 7, data are offered for 9 different distinguishable groups of functions performed by the Federal Government. The period covers the last 2 years of the Old Deal, and the entire period to date under the New Deal. Not only has the total expenditure increased markedly from 1931 to 1939, but the number and type of Government functions have altered drastically. Under this functional classification, three groups did not appear until the advent of the New Deal, and these three alone account for 45 percent of all expenditures in 1939. Yet, even with these services removed from the calculation, the services performed in that year cost 30.5 percent more than those conducted in 1931.

TABLE 23.—*Functional break-down of Federal expenditures, 1931–39*

[Dollar figures in millions]

	1931	1932	1933	1934	1935	1936	1937	1938	1939	Percent increase 1931–39	Dollar increase 1931–39
Legislative, judicial, and civil establishments [1]	$765	$927	$680	$557	$657	$757	$776	$972	$908		
Percent of total	20.8	20.4	17.6	9.3	9.4	8.7	9.5	13.4	10.4		
Percent increase		21.2	−26.6	−18.1	18.0	15.2	2.5	25.3	−6.6	18.7	143
National defense [2]	$667	$664	$633	$494	$663	$880	$895	$980	$1,056		
Percent of total	18.2	14.6	16.4	8.2	9.5	10.2	10.9	13.5	12.1	58.3	
Percent increase		−0.4	4.7	−22.0	34.2	32.7	1.7	9.5	7.7		389
Veterans' pensions and benefits	$943	$973	$849	$554	$604	$2,348	$1,128	$572	$545		
Percent of total	25.7	21.5	22.0	9.2	8.6	27.0	13.8	7.9	6.3	−42.2	
Percent increase		3.2	−12.7	−34.7	9.0	288.7	−52.0	−49.3	−4.7		−398
Interest on the public debt [3]	$612	$599	$689	$757	$821	$749	$866	$926	$940		
Percent of total	16.7	13.2	17.8	12.6	11.7	8.6	10.6	12.8	10.8	53.6	328
Percent increase		−2.1	15.0	9.9	8.5	−8.8	15.6	6.9	1.5		
Public works [4]	$421	$499	$472	$625	$766	$914	$1,102	$880	$1,111		
Percent of total	11.5	11.0	12.2	10.4	10.9	10.5	13.5	12.2	12.8	163.9	
Percent increase		18.5	−5.4	32.4	22.6	19.3	20.6	−20.1	26.3		690
Loans, subscriptions to stock, etc. (net)[5]	$263	$873	$181	$882	$424	$71	$150	$104	$231		
Percent of total	7.2	19.3	4.7	14.7	6.0	0.8	1.8	1.4	2.7	−12.2	−32
Percent increase		231.9	−79.3	387.3	−51.9	−83.3	111.3	−30.7	122.1		
Unemployment relief [6]			$360	$1,853	$2,363	$2,372	$2,527	$1,996	$2,677	(7)	2,677
Percent of total			9.3	30.8	33.7	27.4	30.9	27.6	30.7		
Percent increase				414.7	27.5	0.4	6.5	−22.4	34.1		
Agricultural Adjustment program [8]				$289	$712	$533	$527	$362	$782	(7)	−782
Percent of total				4.8	10.2	6.2	6.4	5.0	9.0		
Percent increase					146.4	−25.1	−1.1	−31.3	116.0		
Social security and railroad retirement						$42	$206	$447	$457	(7)	
Percent of total						0.5	2.5	6.2	5.2		457
Percent increase							390.5	117.0	2.2		
Total expenditures (exclusive of debt retirement)	$3,671	$4,535	$3,864	$6,011	$7,010	$8,666	$8,177	$7,239	$8,707	137.2	5,036
Percent increase		+23.5	−14.8	+55.6	+16.6	+23.6	−5.6	−11.5	20.3		

[1] Includes expenses of the legislative, judicial, and executive departments and establishments not classified in other categories.

[2] Naval equipment and operations and military activities of the War Department.

[3] Does not include debt retirement.

[4] Includes highways, Tennessee Valley Authority, other power development and flood-control projects, reclamation, rivers and harbor development, public buildings, grants to public bodies, and miscellaneous.

[5] Represents additional proprietary interest of Government in R. F. C., farm- and home-mortgage agencies and other lending establishments.

[6] Includes direct relief, work relief and Civilian Conservation Corps.

[7] New function.

[8] Represents funds allocated to A. A. A.

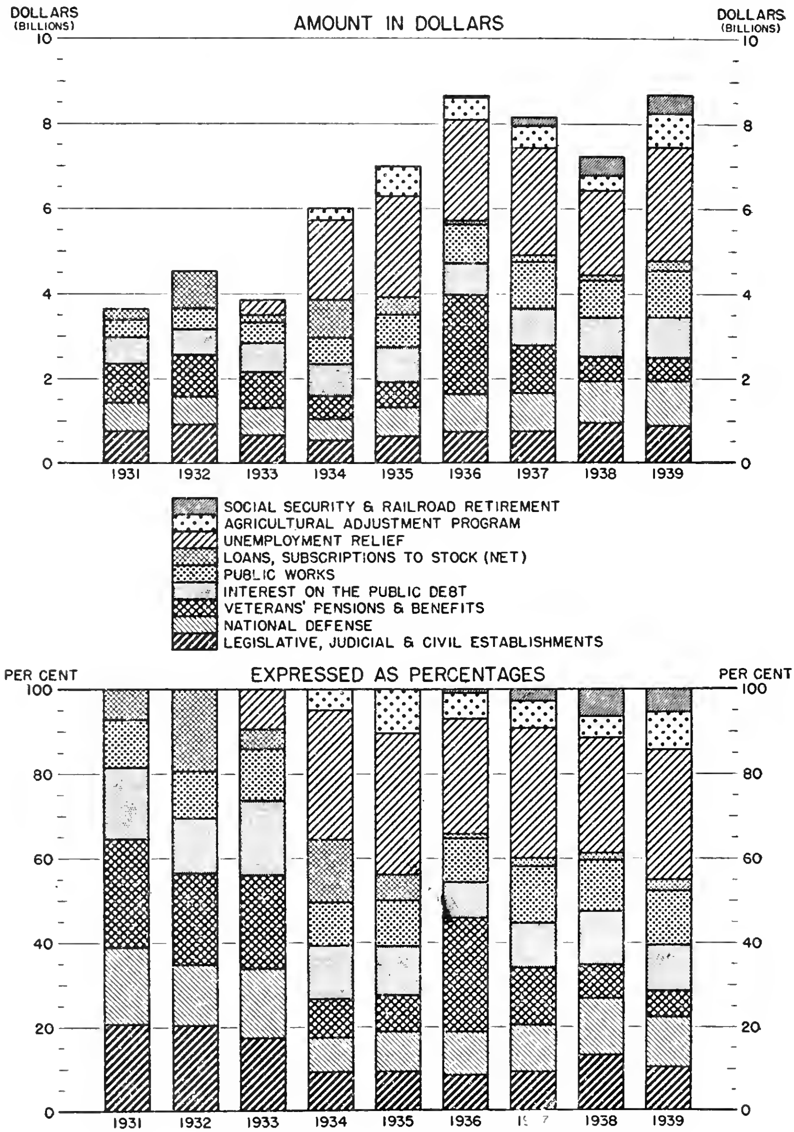
Source: Computed from data in the Budget of the United States Government for the fiscal year ending June 30, 1941.

The costs of all services conducted in this period, except veterans' pensions and benefits and Government loans, were higher in 1939 than 1931, although most of them in 1939 had dropped off from their high points.

CHART 6

FUNCTIONAL BREAKDOWN OF FEDERAL EXPENDITURES

UNITED STATES, 1931-1939



SOURCE: Computed from data in SUMMARY BUDGET STATEMENT, 1941, p. 1037.

The great changes wrought by the addition of social services and the emphasis on relief needs have altered the character of government. Thus, while more money is being spent on the legislative, judicial, and civil establishments of government than before, these functions now total only 10.4 percent of all Government functions, while in 1931 they were 20.8 percent. The relative importance of national defense and interest on the public debt have also declined, while their actual costs have increased substantially. Public works have gained in money budgeted more than any of the older functions of government, yet their proportion of all Government functions is approximately the same as in 1931. Federal expenditures for public works include many functions formerly financed by State and local governments.

Yearly changes in allotments for the functions listed mean little, because the groups are so broad as to conceal determining factors. In unemployment relief, for instance, congressional appropriations for W. P. A. control the total. But within the category of "legislative, judicial, and civil establishments" are a large number of departments and bureaus whose budget allotments vary so much that only a detailed break-down of expenditures, such as is presented later on for 1939, would show the reasons for the change.[11]

[11] See tables 1 to 6, figures 2 to 6, appendix B. pp. 2-16.

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FEDERAL GOVERNMENT EXPENDITURES FOR 1939

The nature of government in the United States has changed greatly since 1932. Many of the functions now performed by the Federal Government were not in existence before that year, others have been greatly strengthened, and still others have been taken over from various governmental jurisdictions. In table 24 is presented a summary of these shifts as they affect Government employment. The New Deal expanded regular agencies and offices, but the great gains noted took place in independent offices and emergency agencies. The Government's personnel increased 52.3 percent from 1932 to 1937, adding almost 280,000 workers to the Federal service. The rate of increase was larger in independent offices than in executive departments, although the number in the executive offices nearly doubled. Also, more than 5 times as many new workers found employment in the permanent agencies as were added to the pay rolls of emergency offices. Some of this growth in regular departments has been due to their assumption of new functions, and some to an increased burden of regular work. It seems likely that in the future much of this increase will continue to be performed on the Federal level, and will be absorbed into the permanent framework of government.

TABLE 24.—*Federal employees in executive branch, December, 1932 and 1937*

Item	1932	1937	Increase, 1937 over 1932	
			Number	Percentage
Grand total	534, 191	813, 448	279, 257	52. 3
Eexecutive departments and White House	471, 676	670, 734	199, 058	42. 2
Independent offices	62, 515	142, 714	80, 199	128. 3
Emergency agencies	2, 036	49, 111	47, 075	2, 312. 1
Permanent agencies	532, 155	764, 337	232, 182	43. 6

Source: Summary of table 7, appendix B, based on Civil Service Commission reports.

This same tendency can be noted for certain parts of the so-called emergency expenditures, for such activities as the National Youth Administration soon reveal traits of permanent value which remove them from the category of emergency services. To presume that any substantial number of these new functions and employees will be eliminated is to ignore the history of the Government. It is much more realistic to recognize the abrupt and permanent change in Federal Government functions that occurred after 1932.

There are important reasons for the increases in Federal service. They are established only after prolonged discussion and congressional action. With rare exceptions, they represent a compromise between forces supporting and opposing particular public expenditures. Some of them are before the country for years before they are enacted into

law. Some, like the Securities and Exchange Act, are passed quickly to meet emergencies beyond the control of individuals, or of the private economy. Others, such as road construction and aviation control, are instituted to meet changed conditions brought about by shifts in technology.

The causes of increased Government functions and costs are often too complex for complete description. They include such distinguishable factors as population growth and shifts, urbanization and industrialization, depletion and additions to natural resources, invention and discovery, changes in the price level, structural changes in the economy, fear of war, general culture rise, recognition of the needs and obligations of a modern state, and a growing conviction that along many lines collective effort for the common good is best realized under Government auspices. All these have been at work molding the American state, shaping our beliefs and practices, resulting in growing cooperation with the Government, as well as dependence upon it, to achieve social security and individual prosperity.

The results of this evolutionary process are reflected in the figures given in table 25, chart 8. Regular and emergency expenditures of Government are there described, excluding certain trust items which are not included in the Budget itself. Federal expenditures may be arranged, according to size, as follows:

Function:	*Percentage of Budget*
Social welfare	33. 8
Public works	23. 1
National defense	18. 6
Interest and debt services	11. 5
Regulation of the economy	7. 0
General government	6. 0
Total	100. 0

This distribution of expenditures is original with this study. In an effort to obtain comparability of functions within groups, drastic reshuffling of budgetary items has been necessary. The subgroups within each of the six classes will help to explain the classification, and the details are shown in the Appendix B.

TABLE 25.—*Federal expenditures by functions (for year ending June 30, 1939)*

	Amount	Percent of group	Percent of total
Social welfare:			
Social security	$441,026,257.51	14.9	
Public health	14,547,512.30	.5	
Relief	2,426,362,488.83	82.0	
Housing, rehabilitation	18,962,649.70	.6	
Education	38,616,415.83	1.3	
Social welfare, miscellaneous	19,837,455.61	.7	
Total	2,959,352,779.78	100.0	33.8
Public works:			
Parks, monuments, expositions, reservations	40,089,443.90	2.0	
Public buildings	89,600,114.68	4.4	
Highways, airports, bridges, rivers, and harbors	375,079,568.12	18.5	
Conservation, irrigation, flood control, power development, forests	1,065,492,896.26	52.5	
Public works, miscellaneous	457,592,582.52	22.6	
Total	2,027,854,605.48	100.0	23.1
National defense:			
Army	469,715,140.50	28.8	
Navy	586,071,637.49	36.0	
Marine Corps	27,266,914.19	1.7	
Veterans' benefits	545,259,404.77	33.5	
Total	1,628,313,146.95	100.0	18.6
Interest and service on national debt	1,008,106,995.06	100.0	11.5
Regulation of the economy:			
Agricultural regulation and tenancy	317,079,564.27	51.8	
Loans to farmers	103,096,376.10	16.8	
Regulation of industry, finance, and exchange	34,474,231.26	5.6	
Loans to industry and finance	10,261,238.42	1.7	
Other subsidy	2,652,501.26	.4	
Regulation of labor contract	4,569,880.43	.8	
Federal ownership	44,733,603.50	7.3	
Trade, merchant marine, Coast Guard	95,281,854.15	15.6	
Total	612,149,249.39	100.0	7.0
General government:			
Legislative	12,323,394.88	2.3	
Executive	145,987,619.75	27.9	
Scientific and social research	99,034,707.72	18.9	
Libraries, printing, information	15,086,366.02	2.9	
Cost of tax collection	80,123,781.46	15.3	
Judiciary, law enforcement, crime	39,972,507.28	7.6	
Diplomacy, territorial government, immigration	51,773,215.97	9.9	
Miscellaneous	79,454,334.10	15.2	
Total	523,755,927.18	100.0	6.0
Grand total	[1] 8,759,532,703.84	....	100.0

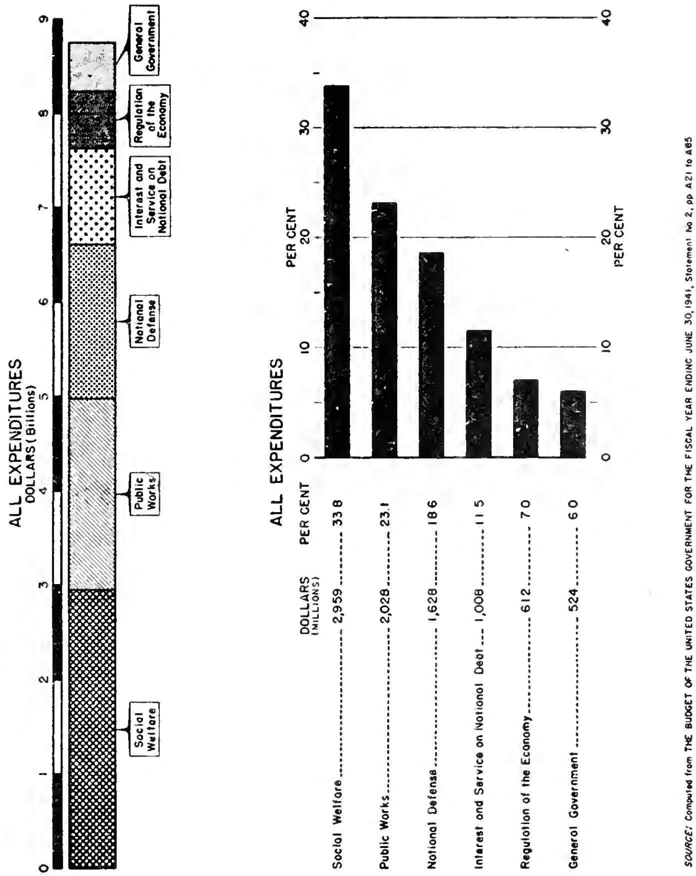
[1] This total differs from the total given in the source by less than 0.1 percent. The difference is due to the impossibility of allocating certain items by functions, but is not large enough to affect any of the six classifications appreciably.

Source: Computed from the Budget of the United States Government for the Fiscal Year Ending June 30, 1941, statement No. 2, pp. A21 to A85.

CHART 8

EXPENDITURES OF THE UNITED STATES GOVERNMENT

BY FUNCTION, FISCAL YEAR ENDING JUNE 30, 1939



SOCIAL WELFARE

This item includes expenditures for social security, public health, unemployment relief, housing and rehabilitation, education, and miscellaneous welfare activities. These diverse functions are all aimed to provide for the poor, the handicapped, the aged, or the underprivileged, and to insure an educated and trained citizenry. Before the depression brought these needs into bold relief, social welfare was a minor function of the Federal Government. State and local governments performed the few existing public social services.

This largest item of the Federal Budget is not the responsibility of any single agency, but is shared by seven executive departments and eight independent establishments. It includes the largest single item in the Budget, the $2,161,500,655 spent by the W. P. A.

A detailed treatment of the events leading up to the budgeting of the present complement of social welfare activities by the Federal Government is given in a recent volume by William Withers on that subject.[12] Until very recently, the American attitude toward charity and relief reflected the philosophy of the Elizabethan poor laws of England. Poverty and misfortune were regarded as the visitation of Divine Providence upon lusting, sinful men. All during the expansion period Americans considered poverty an individual responsibility and needless fault, to be met only in extreme cases with private charity. Not until the country was settled and industrialized, and urbanization prevented self-employment, did the concept of State responsibility for the care of the unfortunate gain a strong foothold.

With the collapse of the industrial system in 1929, the ability of private charity to care for even the direst cases of need was strained past the breaking point. The number of families receiving charity increased from 40,000 in the winter of 1928–29 to 70,000 in the following winter, and the budgets of private charities rose from 1 to more than 10 million dollars a month.[13]

By 1931, despite desperate efforts to raise funds through Government-supported appeals, it was clear that private charity could not care for a fourth of those in need. In 1932 Congress enacted the Emergency Relief and Construction Act, permitting the Reconstruction Finance Corporation to make unemployment relief loans totaling $300,000,000 to States and local governments. The principal emphasis, however, was upon aid to business, in the belief that the depression would pass when distressed businesses were stabilized. Also, the Corporation was authorized to make loans totaling $1,500,000,000 to State and local governments for public works. But the system was cumbersome, and these State and local governments were unable to furnish even the minor share of the cost required by sponsorship and were reluctant to enter upon loan agreements.

The R. F. C. loans to States and localities were unsuccessful attempts to force these governments to assume the responsibility for their own unemployed citizens. There followed the Relief Act of 1933, which set up the Federal program of direct relief administered from Washington. Manned largely by socially conscious persons with experience in social-welfare activities, the needs of the unemployed became of chief concern.

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[12] William Withers, Financing Economic Security in the United States, Columbia University Press, New York, 1939.

[13] Ann Geddes, Trends in Relief Expenditures, 1910–35, Washington, 1937.

It was only reluctantly and with misgivings that the national administration assumed responsibility for the relief of hardship and destitution. The limitation of Federal relief activities to a works program by the Relief Act of 1935 was largely motivated by the desire to force increased participation by States and localities. Under the new act these governments were charged with the care of those employable unemployed who were not assigned to the Federal work program.

The New Deal's emphasis on a work program arose partly out of the opposition to a dole, partly out of the lack of sufficient Federal funds to meet the needs of all the unemployed. Since 1935, therefore, the relief program has been shared between the various governments. There is no recognized obligation on the part of the Federal Government to meet the needs of all the unemployed. Instead, Federal appropriations are fixed in terms of job quotas, calculated with some general recognition of the size of the unemployment problem and the need for maintaining mass purchasing power.

Relief appropriations vary from year to year, always on the presumption that these are emergency items which will drop out of the budget with the return of economic prosperity. As indicated earlier, England also regarded the dole as a temporary expense for nearly 10 years before recognizing it as a continuing charge on the economy.

Certain groups believe that the preparedness program will eliminate the need for Federal unemployment relief. There is little probability, however, even with greatly increased employment, that industry will absorb the large number of older unemployed now on the dole. The elimination of the Federal relief program would, of course, be a boon to the National Budget; if, however, the increased cost of preparedness equals or exceeds the possible drop in relief costs, then the problems of continually increasing expenditures still remain to be solved in behalf of a true economic recovery and a balanced budget.

While there is considerable prospect of a reduction in Federal unemployment relief expenditure, it is extremely unlikely that the program will be eliminated, at least for some time to come.

The laws underlying the social security items of the Budget have already undergone substantial revision, as pointed out later in this treatise. The growing demand for a more nearly pay-as-you-go support of the old-age and unemployment features of the act will probably alter substantially the amounts budgeted for them. They will probably be paid for out of general taxation, rather than from large reserves piled up out of pay-roll taxes. This would mean increases in the amounts budgeted from general Government funds.

Although public health costs are small in the budget of social welfare expenditures, and negligible in the total Budget, health needs are not insignificant, nor are they adequately met under private auspices. A very substantial literature has been developed to prove the inadequacy of the amount and range of health services. The now famous Cost of Medical Care Studies showed that in 1929 the medical bill of the United States was $3,656,000,000, of which only one-seventh was paid from Government funds.[14] Most of the publicly supported medical program is paid for by State and local governments, for in 1938 the Federal Government spent only $1,454,000 on a public-health program.

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[14] Committee on the Cost of Medical Care, I. S. Falk et al., The Cost of Medical Care, p. 517, University of Chicago Press, Chicago, 1933.

Since that time, however, some progress has been made toward the provision of adequate public medical services and a program of prevention. The President has proposed a plan of Federal grants to aid in the construction of low-cost hospitals. A bill authorizing an appropriation of $10,000,000 for this purpose passed the Senate on May 30, 1940. An extensive health program permitting some form of social medicine is being strenuously advocated in Congress, with the prospect that eventually, although after some delay, it will be enacted into law. All such proposals for an adequate Federal health program would involve very substantial additions to the Federal Budget.

A new Government service was added in the passage of the Wagner-Steagall Act in 1937 and the establishment of the United States Housing Authority. Agitation for a program of low-cost housing and slum clearance has been carried on for many years by private organizations and individuals, who pointed out the menace of bad housing to public health and morals. The Federal Government had had some experience in World War I, as a result of the necessity of housing war workers, but during the intervening years had ignored the housing problem. The committee investigating the advisability of a Federal low cost housing program found that there was immediate need for 5,600,000 new houses to replace uninhabitable ones and to bring the housing of the Nation up to standards of minimum decency. It was pointed out that over 16,000,000 houses would be needed by 1950 to replace dwellings becoming obsolete and to eliminate overcrowding.[15]

Private initiative had done practically nothing to meet this challenge, as the construction of low-cost housing for the poor was considered an unsafe and unprofitable business. The Federal Government, therefore, established a loan program whose administrative and other costs totaled $8,629,000 in 1939. Besides this housing program, the Government expended over $10,000,000 in 1939 for rehabilitation of farmers through the farm tenant and farm security programs.

The Federal Government conducts several educational activities, such as Howard University, Columbia Institute for the Deaf, and schools for Indians and Alaska natives. The principal educational service is rendered by the Office of Education, which provides consultive services and research aids for American schools. Certain grants-in-aid for educational purposes are also made.

The problem of extending aid for general education to States and localities unable to provide adequate schooling has been much before the public. Its proponents are making increasing headway, and Congress will undoubtedly, in the near future, make further grants for schools.[16] If adequate public education is to be furnished, the National Budget will be greatly increased.[17]

PUBLIC WORKS

Within the category of "public works," as here classified, over half of all moneys spent go for conservation, irrigation, flood control, power development, and forestry. Public works have played a substantial part in government since the formation of the Republic. In 1939

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[15] Purposes, Powers, and Functions of the U. S. Housing Authority, Mimeographed Bulletin of the U. S. Housing Authority, Washington, D. C., March 1938.

[16] See the reports of the Advisory Committee on Education, appointed by the President of the United States which appeared in a series of booklets in 1939. Especially pertinent is Federal Aid and the Tax Problem, Staff Study No. 4, Washington. Also, John K. Norton and Margaret A. Norton, Wealth, Children, and Education, Columbia University Press, New York, 1938.

[17] For further discussion, see pt. IV.

such expenditures totaled over one-fifth of the entire Budget. Aided by the public interest in finding work for the unemployed, and spurred on by startling revelations of the damage done by erosion, floods, deforestation, and dust storms, the Government has built giant dams and flood-control levees, replanted denuded areas, terraced and replanted farm land, and in many other ways has begun to regain the fertility and conserve the natural resources of the land. This program is by no means completed, and many of its features will require continuing regular additions of expenditures in order to become ultimately successful.

Federal contributions to highway, bridge, and airport construction and maintenance have grown rapidly since 1930. Changing methods of transportation, new construction materials, and advances in technology have combined to make possible a far-reaching program for modern, high-speed transportation. Further, still undetermined changes to meet future demands for safety and speed loom ahead and will make even greater demands upon the Public Treasury.

The effort to find work for idle men and the possibility of making many needed improvements during the depression has resulted in marked betterment of public parks, extensions to museums and exhibits, and many new public buildings. Such work has added substantial sums to the budgetary requirements of the Government and increased maintenance costs as well. Washington itself has benefited greatly from the construction of many fine parkways and buildings, the result of a beautification program to make it a capital worthy of a great Nation. But the bill for all these additions must be met from the Public Treasury, and in 1939 it amounted to approximately $130,000,000.

NATIONAL DEFENSE

The national budget for defense purposes in 1939 totaled $1,628,000,000, 18.6 percent of all expenditures. Defense costs were divided into four parts—Army, Navy, Marine Corps, and veterans' benefits. They include both the regular operating expenses of the military services, the conduct of the Veterans' Administration, pensions, and insurance. They do not include debt charges or retirement of debts incurred directly for defense purposes.

Even these large expenditures in 1939 are small in comparison with the preparedness program launched in 1940.[18] Heretofore, the United States, in comparison with other major powers, has been so protected by geographic and economic factors as to require relatively small military expenditures. Apparently such advantages have been lost and the advance of technology in war and modern transportation have forced upon the Nation, for a long time to come, the problems of providing for vast military preparedness. The Budget of the Federal Government has been greatly altered by this new emphasis, the economy of the Nation is undergoing radical change, and the people will be forced to bear much heavier tax burdens. The 1941 defense appropriation will be far larger than the 1939 figure of about $1,650,000,000. The focus of attention, from the fiscal standpoint, will veer away from unemployment relief and the needs of the civil domestic economy to the requirements of military and naval defense. Defense costs will become the largest item in national expenditures,

[18] National-defense costs over a period of years, and the measures to be taken to cushion the impact of the new preparedness program, are discussed in pt. IV.

assuming a determining role in the Budget's effect upon the entire economy.

INTEREST AND SERVICES ON THE NATIONAL DEBT

The debts of the National Government are a heavy burden on its yearly Budget. In 1939 such charges took over $1,000,000,000 and were 11.5 percent of all expenditures. Of this total, more than $940,000,000 went for interest payments and practically nothing for debt retirement. These debts are partly hold-overs from World War I and partly the result of Federal borrowing after 1932 to supplement tax revenues inadequate for the spending program.[19] The allocations for debts made in 1939 are probably much below those which will be required as a result of the new preparedness program. Only a very drastic shift in the tax system, providing vastly increased current revenues, could keep debt costs down to anything like their present levels.

REGULATION OF THE ECONOMY

The National Government has concerned itself with controlling and regulating the economy ever since 1790. But during the period of land settlement and urbanization, such activities were very circumscribed.

No one political party has been responsible for the regulatory mechanisms set up by the Government. Congress has enacted such laws during both Democratic and Republican administrations, as times and conditions seemed to warrant. Some measures have been altered or rescinded as conditions changed, but on the whole the tendency has been to increase the number and complexity of regulatory practices. Many features of Federal regulation were unnecessary during pioneer days; many others, formerly carried on by local governments or States, have been transferred to the National Government.

The total cost of Federal regulation of the economy in 1939 was $612,000,000, only 7 percent of the total Budget. More than two-thirds of these costs were in the form of aids to agriculture. While there has been some opposition to these practices, they have not been the chief target of the criticism leveled at Federal regulation.

The regulatory mechanisms most complained about are new and probably are not yet well established or understood. While the "cost" of such mechanisms is held up as Government "waste," it is probably not these costs, but the regulatory practices involved, which are behind the criticism. The activities most criticized by certain elements in the business community, who seek to render them ineffective through curtailment of budgets or limitation of powers, are the following:

Regulatory mechanism	Expenditure, 1939	Percentage of total Budget
Securities and Exchange Commission	$4,718,000	0.05
National Labor Relations Board	2,761,000	.03
Wages and Hours Division	1,044,000	.01
Antitrust Division	774,000	.01

[19] See pts. I and IV.

The cost of regulation of the economy has grown consistently throughout our history, and has probably not begun to reach its peak. The increasing concentration of ownership and control of business, the growth of national corporations in interstate commerce, the dominance of the corporate form of enterprise, the organization and increased bargaining power of labor, the use of "yardstick" and other devices for determination of fair practices, the rapid expansion of the consumers' movement and the new emphasis on preparedness all point to greater demands upon Government for regulation of American business. It is unreasonable to expect that future Budgets will allot less funds for such purposes.

GENERAL GOVERNMENT

The cost of Government is generally thought of by the public as the cost of administering the three great branches of Government—the legislative, executive, and judicial. This cost, however, is the least of all public expenditures. In 1939 it accounted for only $524,000,000, or 6 percent of the total. Out of this 6 percent comes the cost of administering several hundred departments, bureaus, and independent offices related to one of the three civil branches of Government, which conduct research, collect taxes, disburse funds, enforce laws, carry on diplomatic and foreign-trade relations, and promote civil services for the good of the Nation.

The most costly activity within the General Government is the executive services rendered through the Cabinet offices. These absorb 27.5 percent of all General Government costs.

Spread throughout Government departments is an indispensable and growing function—scientific and applied research. Increasingly, the Government is being called upon for the collection and dissemination of scientific information, so that in 1939 such activities totaled 18.9 percent of General Govermnent costs.

Tax collection and tax-law enforcement is also a substantial item in the Federal Budget, amounting to 15.3 percent of all "General Government" costs in 1939.

Although the number and scope of Government services have been increasing since 1932, the rate of increase has not been steady. The year 1934 marked the low point of such services, and, after a substantial growth from 1934 to 1938, the appropriations for many of these General Government functions were smaller in 1939 than they had been in 1938. There is little evidence, however, that maximum costs have been reached, and the preparedness program will probably mean larger budgets for both civil and military departments in the next few years.

PROSPECTS FOR THE IMMEDIATE FUTURE

The problems of depression and preparedness will probably prohibit any great reduction of Federal expenditures. It appears, in the light of this examination of the 1939 Budget, that we will need a peacetime Budget of approximately $9,000,000,000.

Already, however, we are no longer considering a peacetime Budget. Instead, we have raised the debt limit to permit extensive further borrowing, and have more than doubled our military program, so that the immediate prospect for 1941 is for a Budget in excess of $12,000,000,000. Even this may prove much too conservative an estimate, for it is estimated that an adequate reorganization of our defenses will cost many billions of dollars, and the maintenance of an armed force sufficient to repel invasion will add much to our yearly expenditures. Once a program of militarism is launched, which has heretofore occurred only in time of actual war, the United States has embarked on a new policy.

The preparedness program comes at a time when the economy is still grappling with accumulated problems of mass unemployment, social and economic insecurity, debt, swollen public expenditures, and increased Government services. Its effects on the general economy will be far-reaching, although they are discernible now only in outline.[20]

So far as the Federal Budget is concerned, the preparedness program is added to a Budget already far beyond predepression figures; and while alterations will likely take place in the economy, as a result of "preparedness prosperity," most of the services added during the 1930's will be retained. It may be that as the preparedness program absorbs an increasing number of the unemployed, relief appropriations can be cut, achieving substantial reductions in this item of Federal expenditures. Such a thoroughgoing preparedness program, however, will mean a hitherto unheard-of increase in military costs.

Furthermore, this program will inevitably be accompanied by increased Federal regulation of business. The first move in establishing the preparedness program was the President's appointment of a National Defense Council to coordinate the production and delivery of a wide range of products and equipment needed for military purposes. The character of the emergency which brings about the appointment of such a council will require the introduction of many controls over business operations.

Congress has already recognized that the preparedness program will increase the over-all expenses of Government enormously. At least a partial attempt has been made to meet these advances through taxation, but borrowing will probably be resorted to in order to secure with dispatch the great amounts needed. Federal spending, both to meet the problems of depression and to provide for national defense, will raise Budgets far beyond predepression levels.

[20] See pt. IV for a further discussion of the probable effects of preparedness on the economy.

PART III

THE AMERICAN REVENUE SYSTEM

THE AMERICAN REVENUE SYSTEM

THE REVENUE SYSTEM DESCRIBED

By 1940 the revenue system of the United States and its subdivisions had grown to include customs duties, taxes on property, on individual and corporate incomes, and on inheritances and gifts, as well as payroll and sales taxes. Subject only to the will of the electorate, they have not been used consistently, nor have they been welded into a rigid structure. This system of revenue is not preconceived nor scientifically imposed, but is the result of political pressure and compromise. It is not economically sound, either in terms of the individual taxes imposed or their relative importance in the entire tax system. It has developed with the changing character of the Nation's economy, but the two are not closely articulated, nor does the tax system meet the fiscal requirements of Government, nor make its full contribution to economic recovery.

The colonists who settled the country brought with them their accumulation of tax experience from England and the Continent. They found a vast expanse of virgin land, whose ownership and cultivation made possible a large measure of economic self-sufficiency. The governmental needs of the colonists were few, and largely local in character. Many of the services commonly performed by Government today were then privately financed and managed; others were nonexistent. Collections in cash or kind were taken up from time to time to defray public expenses, and poll taxes and taxes on land and personal property were gathered to cover levies made by British and colonial governments. The imposition of stamp taxes to supplement these led to serious trouble between the colonies and the mother country. But the tax system was not complicated or extensive.

As the National Government developed, with strong emphasis on extensive local self-government, Federal revenue resources were limited primarily to customs duties and certain excise taxes. The bulk of public revenues was collected by local governments as poll taxes or property taxes and expended within the States.

The Constitution, itself a compromise between contending economic and social factions in the colonies, explicitly forbade the enactment of direct Federal taxes, except as they might be levied on land or slaves or as a poll tax to be apportioned among the States.[1] Prodded by the sudden increase in Federal expenditures during the Civil War, Congress attempted to circumvent this prohibition by passing an indirect income tax in 1862. This tax yielded revenue until it was repealed in 1872. By that time receipts from customs and excises were again sufficient to defray the costs of the Federal Government, and the property-tax system, as a result of the settlement of the land and the establishment of industries, was adequate for the States.

[1] See H. D. Anderson, Our California State Taxes, Stanford University Press, 1937, for a brief historical treatment of the several taxes imposed in the United States.

Hard times struck the country in the 1890's, forcing the Federal Government to seek additional revenues to meet increased costs. An income-tax law passed in 1894 was declared unconstitutional by the Supreme Court. In this extremity, excise taxes were extended, and in addition, a Federal estates tax was adopted in 1898. In 1913 another income-tax law was passed, and was upheld by the courts.

The corporate form of business gained rapidly after the Civil War, and States increasingly levied taxes on "corporate excess" or the difference between the market value of capital stock and the assessed valuation of corporate property. Not until 1909 did the Federal Government, in a pioneering gesture, enact the corporation excise tax, a levy on corporate earnings.

The dependence of the Federal Government on excise taxes has varied from year to year, growing heavier in the face of war or economic stress. A general Federal sales tax has never been enacted, although it has frequently been considered. As early as the Civil War, a congressional committee reported on the feasibility of the tax, saying that such a tax "violates all the fundamental principles of taxation, being neither definite in amount, equal in application, nor convenient in collection." [2]

Net income tax rates were increased in 1916, and a temporary tax of 12.5 percent was levied on the net profits of certain businesses which benefited particularly by the World War. These changes, coupled with the decline in customs receipts during the war, temporarily shifted the burden of Federal taxation, as indicated in the following figures: [3]

Year	Percentage of ordinary receipts	
	Customs and internal revenues	Income and profits taxes
1913	95.2	4.8
1917	68.0	32.0
1920	41.0	59.0

Those who had been forced, in a burst of patriotism, to assume an increasing share of Federal taxation naturally wished to rid themselves of this burden when peace came. They sought to do so by forcing the passage of a general sales tax. These attempts, in 1918–20, were resisted by such large pressure groups as the Farm Bureau Federation, the National Grange, and the American Federation of Labor, and despite the use of the propaganda for a soldiers' bonus as leverage for the enactment of a general sales tax, the proposal was defeated. Tax relief was provided for the wealthy, however, in the reduction of Federal income tax rates beginning in 1921, which inaugurated the Mellon tax plan of the prosperity period.

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[2] U. S. Revenue Commission Report. 1866, p. 21.
[3] Secretary of the Treasury, Annual Report, Washington, 1924, pp. 390–391.

Agitation for the passage of the general sales tax subsided thereafter until the break-down of the economic structure in 1929. Then the attempt to enact a Federal sales tax again became a matter of national concern, strenuously urged by certain groups seeking tax relief. The movement for the Federal sales tax harassed the closing years of the Hoover administration, but died down with the advent of the New Deal and the vigorous opposition of President Roosevelt to the proposal.

The States did not fare so well. State services had been increasing rapidly in relation to those rendered by local communities, yet the chief source of State revenue, the general property tax, provided less and less income in times of economic stress when the need for funds was greatest. West Virginia, during the depression of 1921–22, passed the first general sales tax ever adopted by an American State. Not until after 1930 did other States follow suit. In the distress prevailing after 1929 one after another resorted to general sales taxation in order to maintain State services and to relieve the burden on property. By 1935, 32 of the 48 States, or 67 percent, had adopted sales taxes of one sort or another.

The passage of the Federal social-security program in 1935 inaugurated a new form of Federal taxation, in pay-roll taxes for old age and unemployment insurance. The old-age insurance reserve is being accumulated out of a 1-percent pay-roll tax assessed against both employers and employees. It was originally planned that the tax should be increased every 3 years after 1939 until it reached 6 percent in 1949; Congress, however, has fixed the rate at the old figure until 1941.

The unemployment-insurance tax is an incentive for States to install unemployment reserve systems, for 90 percent of the tax collected is returned to those States which have enacted satisfactory unemployment-insurance laws.

Table 26, chart 9, summarizes the Federal, State, and local revenue system of the United States.[4] In 1938, Federal revenues, once of minor importance in comparison with local taxation, constituted 40.7 percent of all Government revenue. Furthermore, State governments had assumed an increasing proportion of local expenditures and had expanded their revenue to meet these demands.[5] By 1938 they collected 26.1 percent of all tax revenues. But the local governments—counties, municipalities, and districts—still accounted for a third of all public revenue.

[4] Some confusion may result from the reader's attempt to reconcile the several different displays of tax data in the tables of this monograph. This cannot be done because time spans are not identical. Among the various sources used are the following:

1. Federal and estimated State and local revenues and expenditures, for the fiscal year 1938, compiled by the Tax Research Division of the U. S. Treasury.

2. Estimates and tax collection data taken from the several sources indicated in the footnotes of table 27, assembled by Dr. Clarence Heer for the Advisory Committee on Education.

3. Data taken from the U. S. Department of Treasury, Bureau of Internal Revenue, published as "Comparative Statement of Internal Revenue Collections by Tax Sources, 1930–36, 1937–38," calendar years. This series forms the body of the statistics on tax collections presented, and within themselves the displays check, so that comparability is achieved.

4. Data presented from the U. S. Department of Treasury, Statistics of Income. These data are for tax years, or tax periods within calendar periods.

The reader must be cautioned further concerning data on "tax assessments" and "tax collections" which are not always synonymous.

[5] See H. D. Anderson, Our California State Taxes, Stanford University Press, 1937, for a detailed analysis of this statement.

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TABLE 26.—*Tax-revenue system of the United States, fiscal year 1938*

[Dollar figures, except per capita in millions]

Source	Federal		State (Est.)		Local (Est.)		Total		Percent, Federal	Percent, State	Percent, local
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent			
Customs	$359	5.9					$359	2.4	100.0		
Property			$214	5.5	$4,531	92.1	4,745	32.0		4.5	95.5
Individual income	1,313	21.7	249	6.5			1,562	10.6	84.1	15.9	
Estate, inheritance, and gift	417	6.9	145	3.8			562	3.8	74.2	25.8	
Corporate income and privilege	1,449	24.0	313	8.1			1,762	12.0	82.2	17.8	
Pay rolls	743	12.3	707	18.3			1,450	9.8	51.2	48.8	
Motor fuel and vehicle	293	4.9	1,163	30.2	25	.5	1,481	10.0	19.8	78.5	1.7
Liquor and tobacco	1,136	18.8	298	7.7	32	.7	1,466	9.9	77.5	20.3	2.2
Sales and other excises	287	4.8	717	18.6	302	6.1	1,306	8.8	22.0	54.9	23.1
Other tax revenue	37	.6	51	1.3	30	.6	118	.7	31.4	43.2	25.4
Total	6,034	100.0	3,857	100.0	4,920	100.0	14,811	100.0	40.7	26.1	33.2
Per-capita tax revenues [1]	$46.48		$29.71		$37.90		114.09				
Tax revenues as percentage of national income [2]	8.9		5.7		7.2		21.8				

[1] On the basis of the estimated population (129,818,000) as of Jan. 1, 1938.
[2] On the basis of the average ($67,923,000,000) of the estimated national income for calendar years 1937 and 1938.

Source: Based on Bulletin of the U. S. Treasury Department, August 1939.

Tax data are often presented on a per capita basis to indicate the effect of population shifts. Such data are frequently misunderstood to mean that the burden of taxation is on a per capita basis. Figures on per capita tax revenues have no value except to indicate a comparison between tax revenues and the population. In 1938 tax revenues were $114 per capita, of which the Federal Government collected $46, the local governments $37.90, and the State governments $29.70.

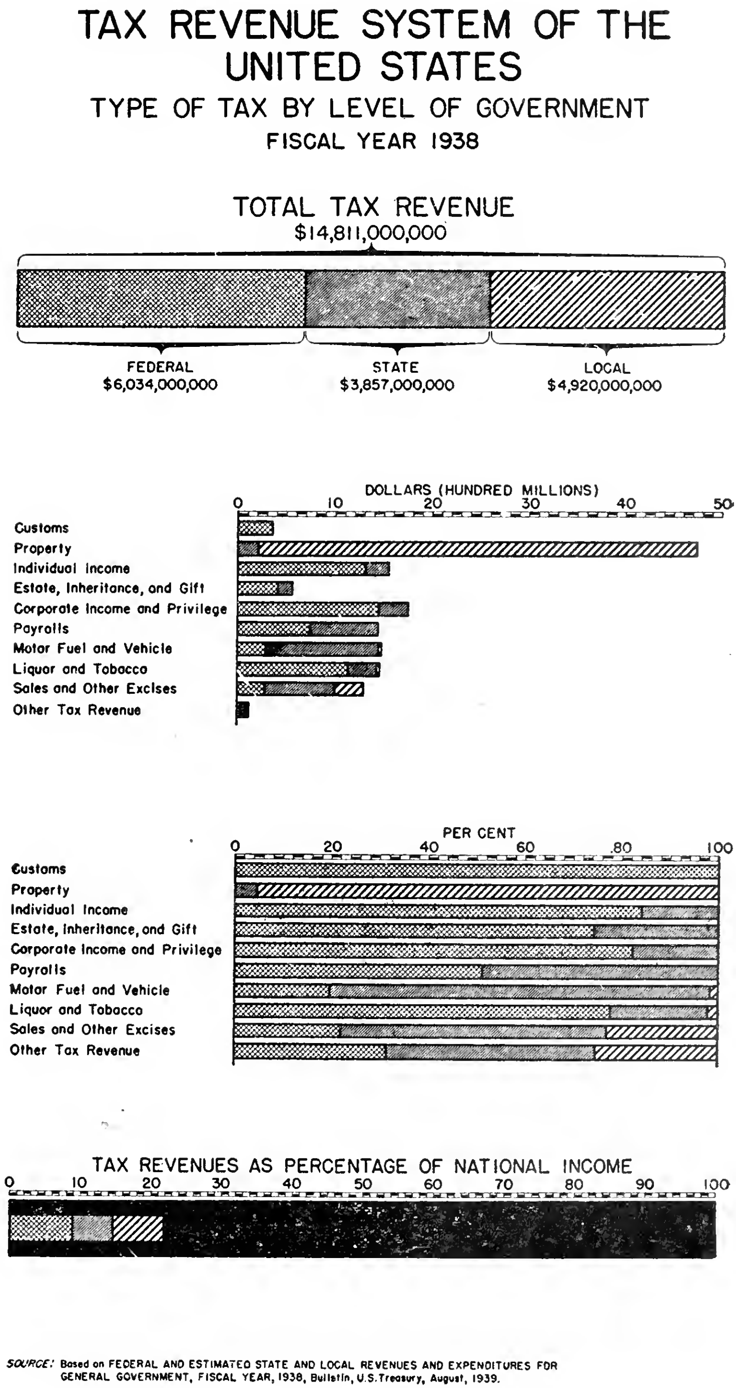
Taxes in 1938 were more than a fifth of the total national income. The Federal Government tax revenues were 8.9 percent of the national income, the local governments' taxes were 7.2 percent, and the States' 5.7 percent. These percentages are not to be regarded as a deduction from national income, for tax revenues defray production costs of Government activities, and by so doing create income as well as use and distribute it.

TOTAL REVENUE SYSTEM

Current revenues collected for all types of government totaled $14,811,000,000 for the fiscal year 1938. Progressive taxes,[6] which are levied on taxpayers in proportion to their ability to pay them, and which by their very nature fall predominantly upon relatively well-to-do citizens, were only 26.4 percent of all revenue collected. Regressive taxes, comprising property, customs, sales, pay roll, and other excise taxes, which take little or no account of ability to pay, and which usually restrict purchasing power, totaled 73.6 percent of all tax revenues. Thus, approximately $4,500,000,000 were collected in various forms of taxes which may be presumed to have had a con-

[6] See p. 89 ff. and pt. IV for a discussion of the terms used.

CHART 9


TAX REVENUE SYSTEM OF THE UNITED STATES
TYPE OF TAX BY LEVEL OF GOVERNMENT
FISCAL YEAR 1938
TOTAL TAX REVENUE
$14,811,000,000
FEDERAL
$6,034,000,000
STATE
$3,857,000,000
LOCAL
$4,920,000,000
DOLLARS (HUNDRED MILLIONS)
0
10
20
30
40
50
Customs
Property
Individual Income
Estate, Inheritance, and Gift
Corporate Income and Privilege
Payrolls
Motor Fuel and Vehicle
Liquor and Tobacco
Sales and Other Excises
Other Tax Revenue
PER CENT
0
20
40
60
80
100
Customs
Property
Individual Income
Estate, Inheritance, and Gift
Corporate Income and Privilege
Payrolls
Motor Fuel and Vehicle
Liquor and Tobacco
Sales and Other Excises
Other Tax Revenue
TAX REVENUES AS PERCENTAGE OF NATIONAL INCOME
0
10
20
30
40
50
60
70
80
90
100
SOURCE: Based on FEDERAL AND ESTIMATED STATE AND LOCAL REVENUES AND EXPENDITURES FOR GENERAL GOVERNMENT, FISCAL YEAR, 1938, Bulletin, U.S. Treasury, August, 1939.

strictive effect upon the economy. Regressive levies spent for relief or welfare activities, however, involve largely a transfer, rather than a diminution of mass purchasing power.

The principal support of government is still the property tax, which in 1938 accounted for a third of all government revenues. No other tax yields as much as 15 percent of all revenue. Federal and State corporate income and privilege taxes are second, with 12 percent of the total. Individual income taxes are not far behind, with 10.6 percent, followed closely by motor fuel and vehicle taxes, liquor and tobacco taxes, pay roll, and other sales and excises. Customs revenues and taxes on gifts and inheritances are of relatively small importance in the total yield of taxation. This grouping of taxes into 10 sources conceals the wide variety of different individual taxes levied, each designed to extract revenue from some form of wealth or income. As the system has become more diversified, it has grown increasingly difficult to devise a levy which does not dip into resources already being taxed.

Nor, incidentally, does this highly diversified tax system insure a constant flow of revenue in both good and bad times, for the system leans heavily on sources which are promptly and seriously affected by changes in the general economy.[7]

Of the 10 different sources, or groups, of tax revenue, the Federal Government uses 9, the States 9, and the local governments 5. There is marked duplication of tax sources, especially between the Federal Government and the States. The only group of sources not used by the Federal Government is real and personal property. Customs duties, on the contrary, are reserved by the Federal Government. Local governments in 1938 did not use customs, individual income, gifts and death duties, corporate income, or pay-roll taxes, although since then certain cities have invaded the personal income-tax field to secure increased revenues.

There are few tax restrictions on the various governments, and they have ranged into many fields to obtain revenue, guided largely by what is feasible rather than by any desire to segregate sources and restrict the use of sources to particular governments. Overlapping and duplication of taxation between governmental bodies have reached such proportions as to form one of the major tax problems of the Nation. Later discussion will devote considerable space to this important issue.

THE FEDERAL REVENUE SYSTEM

By 1938 Federal revenues had risen to the enormous figure of \$6,034,000,000. This is not the amount of Federal expenditures, but the yield from tax sources and other revenue. In fact, the Federal Budget was considerably larger than \$6,034,000,000, and the difference was made up by borrowings and other revenue.

The Federal revenue system is far more "progressive" in its economic effects than either the State or local tax systems. Whereas the entire revenue system obtained one-fourth of its yield from taxes to some extent based on ability to pay, and three-fourths from taxes which take little or no account of the economic circumstances of those who finally pay them, the Federal tax system obtained 52.6 percent of its yield in 1938 from income, estate, and gift taxes, and 47.4 percent from customs and excise taxes.

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[7] For a further discussion of the elasticity of the revenue system, see pt. IV.

Customs duties have fallen to a relatively unimportant place in terms of total Federal revenue, yielding less than 6 percent of all tax moneys in 1938. Throughout the years the Federal Government has come to place more dependence on income taxation, especially corporate taxes, which in 1938 yielded approximately one-fourth of all revenues. Individual income taxes are not far behind, contributing over one-fifth of the total. Excise and sales taxes are the heaviest contributors of all, however, and taxes on liquor and tobaccos alone accounted for almost 19 percent of all revenues in 1938. Estate and gift taxes yielded more revenue than customs duties. The new pay-roll taxes for social security were over 12 percent of the total revenues.

THE STATE TAX SYSTEM

Table 26 also gives information concerning the State revenue system. No two State tax systems are identical, and any such display weights heavily the States with large tax yields. Some States collect property taxes, some do not. The same is true of income and general sales taxes, while all States, except Nevada, impose inheritance or estates taxes, and most States have various excise taxes.

The largest amount of State revenue is obtained from motor vehicle and fuel taxes, which in 1938 accounted for 30 percent of all State tax funds. It has become the practice for States to collect such taxes, to prevent evasion and achieve administrative economies, although some States apportion the taxes thus collected to governmental subdivisions for local purposes.

The break-down of general property tax systems during the depression placed sales taxation second among State tax systems, with over 18 percent of all State tax collections in 1938. Pay-roll taxes also have become a very important aspect of State revenue systems, ranking only slightly below the general sales tax.

While the property tax is still collected in many States, it contributed less than 6 percent of the total revenues recorded in 1938. The position of inheritance, individual income, and corporation income taxes in State taxation does not compare with their importance in the Federal system. Liquor and tobacco taxes alone yield the State almost as much revenue as corporate income and privilege levies.

The combined State levies burden the consuming public proportionately much heavier than does the Federal system. Only 18 percent of State tax revenues are from income and inheritance taxes, while over 80 percent comes from property, sales, and excise taxes.

THE LOCAL TAX SYSTEM

The major, but not the exclusive, local tax is that on real and personal property. In 1938 over 92 percent of all locally imposed taxes were from this single source. In some localities taxes were levied on motor vehicles. In fact, as recently as 1935 in California, property taxes on automobiles were levied and collected by the counties, and are still so collected in some other States. Some municipalities have made use of the retail sales tax in recent years, and revenues from this source are the second most important form of local taxation. Local governments also levy business sales licenses and taxes on liquors, and while they are a substantial form of tax support in some local governments, they are only a minor part of all local taxation.

TRENDS IN TAX REVENUES

Trends in Federal, State, and local tax yields are presented in table 27, charts 10 and 11. These figures are adapted from a series developed by Clarence Heer,[8] and have been continued through 1938 by the addition of data from other sources. It is difficult to obtain absolute comparability of such figures for successive years, as the compilations of the various Governmental agencies do not always follow identical procedures. Hence, studies by different tax authorities are often in some disagreement, depending on the character and treatment of the source material.

TABLE 27.—*Distribution of total tax collections, by level of government, for selected fiscal years, 1912–38*

[Dollar figures in millions]

Year	Total	Federal [1]		State and local					
				Total		State		Local	
		Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
1912	$2,295	$633	27.6	$1,662	72.4	$333	14.5	$1,329	57.9
1925	8,051	3,132	38.9	4,919	61.1	1,303	16.2	3,616	44.9
1928	9,465	3,360	35.5	6,105	64.5	1,774	18.7	4,331	45.8
1930	10,425	3,627	34.8	6,798	65.2	2,080	20.0	3,718	45.2
1931	9,390	2,807	29.9	6,583	70.1	[2] 2,048	21.8	4,535	48.3
1932	8,243	1,885	22.9	6,358	77.1	[2] 1,882	22.8	4,476	54.3
1933	7,546	1,871	24.8	5,675	75.2	1,750	23.2	3,925	52.0
1934	8,841	2,986	33.8	5,855	66.2	1,996	22.6	3,859	43.6
1935	9,745	3,643	37.4	6,102	62.6	2,293	23.5	3,809	39.1
1936	10,546	3,907	37.0	6,639	63.0	2,495	23.7	4,144	39.3
1937	12,162	5,140	42.3	7,022	57.7	2,815	23.1	[3] 4,207	34.6
1938	14,811	6,034	40.7	8,777	59.3	[4] 3,857	26.1	[4] 4,920	33.2

[1] Internal-revenue receipts, collection basis and customs receipts. Customs include tonnage tax for years prior to 1932. Data are on the basis of the daily Treasury statement, unrevised, except that for the year 1912 they are on the basis of warrants issued.
[2] Includes an estimated $300,000,000 of shared taxes distributed to local governments in 1930, and $270,000,000 in 1931.
[3] Estimated from the 1936 figure on the basis of the percentage increase between 1936 and 1937 in general property tax assessments, and rates of levy in approximately 220 American cities.
[4] Estimated.

Source: Clarence Heer, Federal Aid and the Tax Problem; Staff Study No. 4, Advisory Committee on Education, Washington, 1939, p. 31, and Bulletin of the U. S. Treasury Department, August, 1939, p. 4.

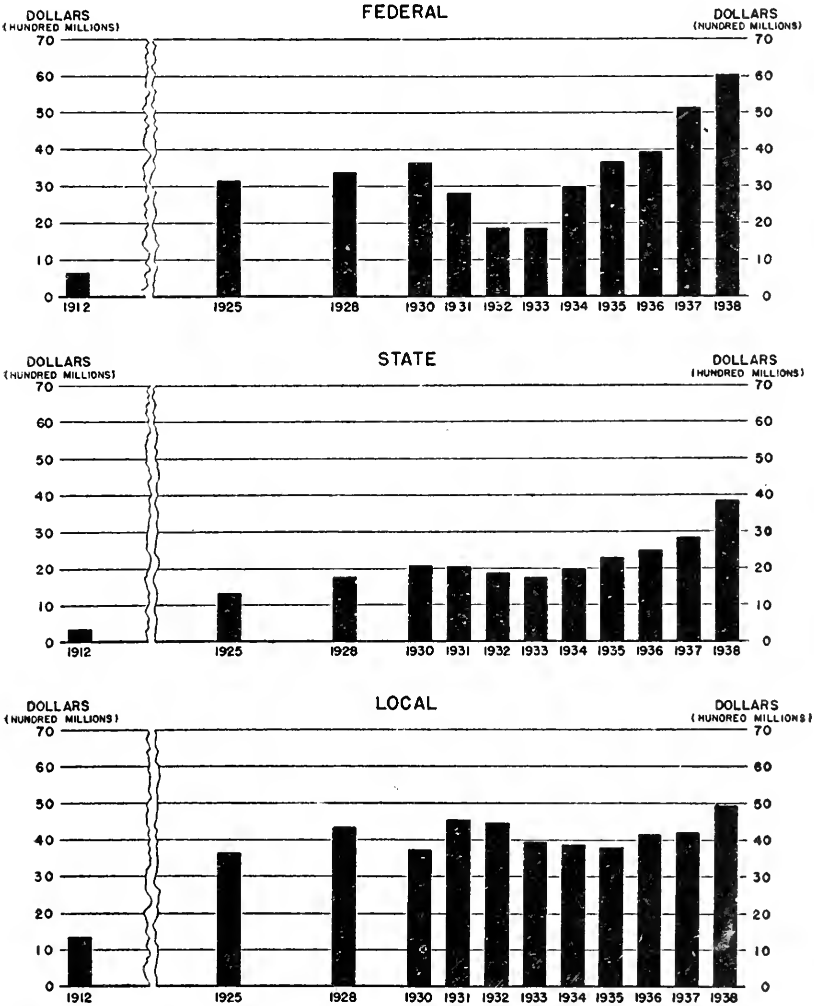
The table offers data for the years 1912, 1925, 1928, and each year thereafter. Revenues, which in 1912 totaled $2,295,000,000, had increased by 1938 to $14,811,000,000. But in addition to the increase in tax revenues, the table portrays the changing role of the various governmental units. In 1912 the Federal Government accounted for only 27.6 percent of all government tax collections. By 1938 it had become of dominant importance, accounting for over 40 percent of all tax revenues. The combined revenues of States rose from 14.5 per-

[8] Clarence Heer, Federal Aid and the Tax Problem, Staff Study No. 4, Advisory Committee on Education, Washington, 1939. Data for 1938 from Bulletin of the U. S. Treasury Department, August 1939.

CHART 10

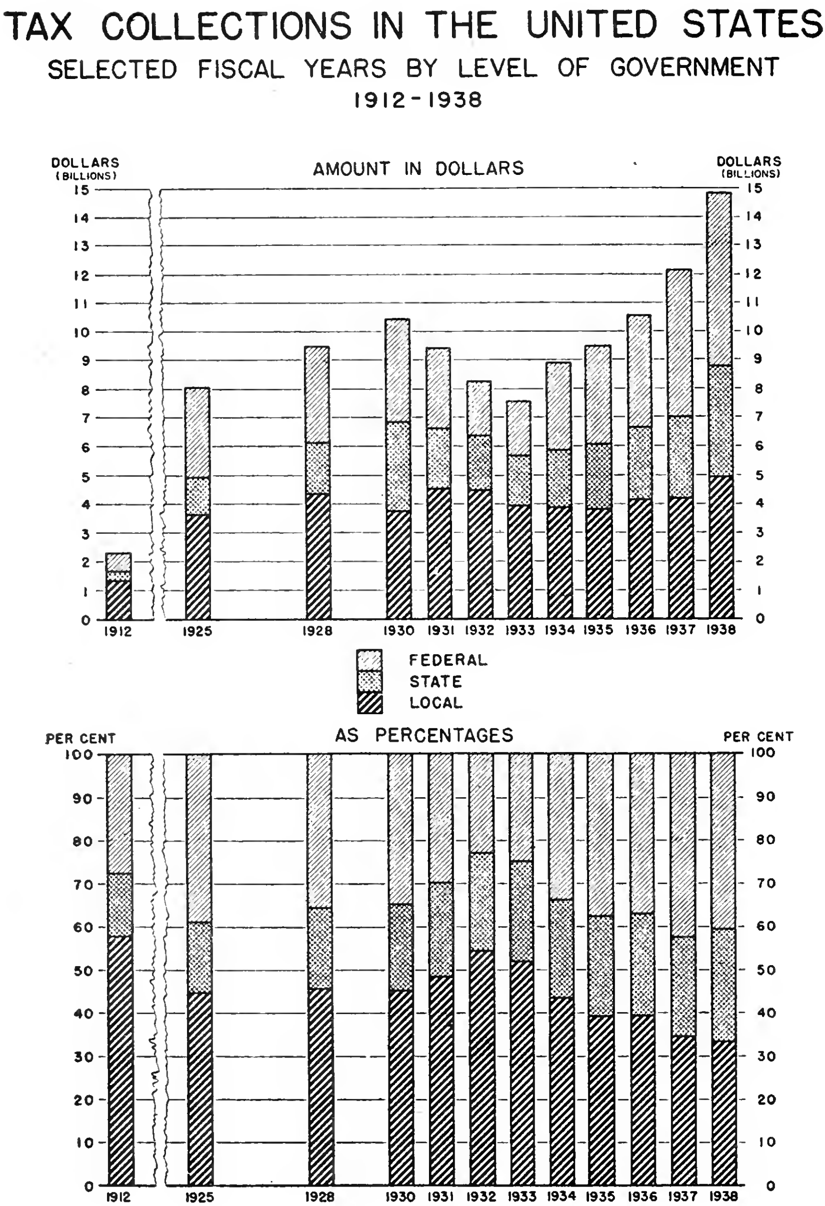
TAX COLLECTIONS IN THE UNITED STATES

SELECTED FISCAL YEARS BY LEVEL OF GOVERNMENT
1912 - 1938



SOURCE: FEDERAL AID AND THE TAX PROBLEM; Staff Study No.4, Advisory Committee on Education, Washington, D.C. 1939, p. 31

CHART 11



SOURCE: FEDERAL AID AND THE TAX PROBLEM; Staff Study No 4, Advisory Committee on Education, Washington, D.C., 1939, p 31

cent of all the collections in 1912 to 26.1 percent in 1938. Local governments, on the other hand, collected almost 58 percent of all tax revenues in 1912, and only 33 percent in 1938.

In none of the three levels has the year-to-year change been regular. For example, in 1930, when tax collections were higher than for any previous year, largely because of the unusually high income returns for 1929, the Federal Government collected 34.8 percent of all governmental revenues. Its proportion of the total declined in 1930 and 1931, reaching a low point in 1932, with 22.9 percent of the total. Then came the New Deal, with its vigorous program of unemployment relief and recovery measures for industry and agriculture. The Federal Government began to assume obligations formerly carried by other governmental units or private organizations, and both the total Federal tax bill and its proportion of all tax revenues began to mount, until in 1935 it was greater, both in amount and in proportion of the total, than for any year since 1925.

Revisions in Federal tax laws provided still larger sums after 1935, and the Federal Government's proportion of all taxes raised continued at an all-time high for peacetime years. While this situation may not be permanent, there is little prospect of such a drastic shift as to subordinate the Federal Government to the State or local branches in the immediate future. In fact, the Federal Government will undoubtedly become increasingly more important as a tax collector, because of its larger resources and greater access to taxable wealth, its strategic position as an arbiter between the States, and its nonsectional approach to fiscal problems.

The States, like the Federal Government, are assuming increased governmental responsibilities formerly borne by the localities, and consequently State revenues are increasing faster than those of local governments. Local taxation is confined largely to property located within local boundaries. During the depression years property values have dropped, delinquencies increased, and the return from ad valorem taxes has suffered in consequence, despite increased assessment valuations in many localities. Stabilization of this situation is being sought by various means, but the problem persists, and in spite of increasing demands on local government for more services, limited tax resources force responsibility upon the State or Nation.

In table 28 the figures given in the previous table are arranged to show annual percentage changes. Of special significance are the figures from 1930 onward. Despite increased expenditures during depression, and the often frantic efforts to secure new revenues to avoid borrowing, total tax revenues dropped 8 percent or more a year from 1931 to 1933. The decline in total revenues is perhaps less surprising than that they dropped little in comparison to the collapse of business revenues. Our heterogeneous progressive-regressive tax system showed a remarkable ability, all things considered, to maintain revenues even during severe economic stress.

TABLE 28.—*Tax revenues collected by Federal, State, and local governments and percentage change, selected fiscal years 1912–38*

[Dollar figures in millions]

Taxes	1912	1925	1928	1930	1931	1932	1933
Federal	$633	$3, 132	$3, 360	$3, 627	$2, 807	$1, 885	$1, 871
Percentage increase		394. 78	7. 28	7. 95	−22. 61	−32. 85	−0. 74
State	$333	$1, 303	$1, 774	$2, 080	$2, 048	$1, 882	$1, 750
Percentage increase		291. 29	36. 15	17. 25	−1. 54	−8. 11	−7. 01
Local	$1, 329	$3, 616	$4, 331	$4, 718	$4, 535	$4, 476	$3, 925
Percentage increase		172. 08	19. 77	8. 94	−3. 88	−1. 30	−12. 31
Total	$2, 295	$8, 051	$9, 465	$10, 425	$9, 390	$8, 243	$7, 546
Percentage increase		250. 81	17. 56	10. 14	−9. 93	−12. 22	−8. 46

Taxes	1934	1935	1936	1937	1938	Increase 1938 over 1912
Federal	$2, 986	$3, 643	$3, 907	$5, 140	$6, 034	$5, 401
Percentage increase	59. 59	22. 00	7. 25	31. 56	17. 4	853. 2
State	$1, 996	$2, 293	$2, 495	$2, 815	[1] $3, 857	$3, 524
Percentage increase	14. 06	14. 88	8. 81	12. 83	37. 0	1, 058. 3
Local	$3, 859	$3, 809	$4, 144	$4, 207	[1] $4, 920	$3, 591
Percentage increase	−1. 68	−1. 30	8. 79	1. 52	16. 9	270. 2
Total	$8, 841	$9, 745	$10, 546	$12, 162	$14, 811	$12, 516
Percentage increase	17. 16	11. 03	8. 22	15. 23	21. 8	545. 4

[1] Estimated.

Source: Clarence Heer, Federal Aid and the Tax Problem, Advisory Committee on Education, Washington, 1939, p. 31, and Bulletin of the U. S. Treasury Department, August 1939, p. 4.

The rapid increase in tax revenues since 1934 results from tax revisions and an increase in national wealth and income. Federal revenues responded particularly to these changes, registering yearly changes as high as 60 percent. Annual increases in State revenues, while substantially less, ranged from 9 to 15 percent.

SOURCES OF FEDERAL REVENUES

Judged in terms of their economic effects, taxes may be arranged in two broad groups—progressive and regressive. "Progressive" taxes are those which bear some relationship to the ability of the taxpayers to meet the tax burden imposed upon them; "regressive" taxes are imposed without regard to such ability.

Progressive taxes levy upon increments of economic surplus derived from rents, interest, wages, or profits. They take the form of personal and corporation net-income taxes; they tap economic surplus laid by in fortunes of individuals which are passed by gift or inheritance to their legatees; or they are levied as excess profits and dividend taxes on evidences of business profits.

Net economic surplus appears in any levy on net incomes and profits, for in such cases costs of operation have already been allowed or paid. Such taxes are actually borne by the taxpayer upon whom the tax is levied. But this evidence of economic surplus does not necessarily mean that the tax is economically sound or beneficial to the whole economy, nor does it preclude the possibility of individual hardship in paying the tax. Real "progressive taxation" requires more than that. It necessitates some recognition that incomes vary in size and character, and that taxes should allow for these differences by levying at progressive rates as the economic surplus increases.

Finally, any tax, no matter how progressive, is valuable only in its relation to other taxes which make up the revenue system, the part it plays in the expenditure program, and its total effect upon the economy.

"Regressive" taxes deny the theory of progression, and fall more heavily upon small incomes than upon large ones. Regressive taxes are usually indirect, and may be passed along in higher prices until they come to rest on the ultimate consumer or user of the goods.[9] They usually take the form of sales or excise taxes on commodities sold, services rendered, or gross receipts of business enterprise.

The definitions and classification used here are admittedly not entirely satisfactory, being too crude to describe either the equity involved in the taxes levied, or their precise economic effects. Furthermore, they make use of a popular description of taxes which is likewise not founded on careful, detailed determination of the incidence and effect of particular taxes. In technical usage, the terms "progressive" and "regressive" apply specifically to the rate structures of taxes. Those which take a larger percentage of high income than low are deemed "progressive"; those which take a larger percentage of low than high income are considered "regressive." Here, however, the usage presumes this condition, but is broadened to connotate a relationship to the economic circumstance of the tax-paying groups.

In the very excellent Report of the Royal Commission on Dominion-Provincial Relations,[10] the difficulties of classification are recog-

[9] For some qualification of this statement, see pt. IV.

[10] Report of the Royal Commission on Dominion-Provincial Relations, May 3, 1940, Book I, pp. 210–215; also Book II, Chapter VIII.

nized and an arbitrary grouping made, the underlying assumption being a difference of incidence. Three groups are distinguished, namely, Consumption Taxes, regressive in character except for a relatively few taxes of comparatively small yield; Business Taxes, imposed at some intermediate point in the production-consumption cycle and subject to shift in incidence as general business conditions change; and Progressive Taxes falling on surplus, or income in excess of that necessary for subsistence. While a sharper distinction in some respects than the two-group classification employed in the present study, the Royal Commission study recognizes the repressive character of taxes which make up the second group, apparently subscribing to the view of substantial forward shifting to ultimate consumers of goods and services.

The Colm-Tarasov study, Who Pays the Taxes? Allocation of Federal, State, and Local Taxes to Consumers' Income Brackets, likewise assumes a forward shifting of most of these business taxes to rest ultimately on consumers in a regressive manner.[11]

If the reader objects to the classification and groupings made in the present study, the essential data are furnished permitting other arrangements. It is believed, however, that the present use is practical, has some merit in enabling one to come to grips with certain essentials of taxation and their broad economic effect, and does not contain sufficient error to badly distort the conclusions drawn from the arrangement of the data.

Since the social and economic effects of progressive and regressive taxation are different, these taxes are segregated in table 29 and chart 12. Table 29 gives data on both progressive and regressive revenues from 1930 to 1938.[12] Progressive taxes are gathered under a single heading from table 30, while the regressive taxes from table 44 are listed as consumption levies. However, the tax methods used in providing conservation and social security funds are also largely regressive, as are the prohibitive and customs taxes.

[11] Gerhard Colm and Helen Tarasov, Monograph No. 5, Temporary National Economic Committee, Who Pays the Taxes? Allocation of Federal, State, and Local Taxes to Consumers' Income Brackets. Washington, 1940.

[12] It should be remembered that some of the taxes are collected currently, and some on earnings of the prior year; hence conclusions as to taxable income are impossible.

TABLE 29.—*Total Federal tax revenues, calendar years, 1930–38 (progressive and regressive)*

[Dollar figures in thousands]

Sources	1930	1931	1932	1933	1934
Progressive	$2,449,992	$1,458,070	$854,133	$959,467	$1,211,868
Percent of total	72.2	63.8	50.9	40.4	36.8
Percent increase	----------	−40.5	−41.4	12.3	26.3
Regressive consumption	$482,387	$455,385	$565,430	$990,419	$1,281,447
Percent of total	14.2	19.9	33.7	41.7	38.9
Percent increase	----------	−5.6	24.2	75.2	29.4
Conservation and social security	----------	----------	----------	$140,563	$500,308
Percent of total	----------	----------	----------	5.9	15.2
Percent increase	----------	----------	----------	----------	255.9
Prohibitive	$589	$600	$505	$498	$551
Percent of total [2]	----------	----------	----------	----------	----------
Percent increase	----------	1.9	−15.8	−1.4	10.6
Customs	$461,885	$370,771	$259,600	$283,681	$301,168
Percent of total	13.6	16.2	15.4	11.9	9.1
Percent increase	----------	−19.7	−30.0	9.3	6.2
Total	$3,394,852	$2,284,826	$1,679,669	$2,374,628	$3,295,341
Percent of totals	100.0	100.0	100.0	100.0	100.0
Percent increase	----------	−32.7	−26.5	41.4	38.8

Sources	1935	1936	1937	1938	1938 over 1930 [1]
Progressive	$1,636,427	$2,162,959	$3,218,464	$3,175,788	$725,796
Percent of total	44.0	51.6	52.9	54.6	----------
Percent increase	35.0	32.2	48.8	−1.3	29.6
Regressive consumption	$1,396,890	$1,619,721	$1,717,311	$1,666,194	$1,183,807
Percent of total	37.6	38.6	28.2	28.8	----------
Percent increase	9.0	16.0	6.0	−3.0	245.4
Conservation and social security	$325,326	$4,078	$680,706	$665,029	$524,466
Percent of total	8.8	0.1	11.2	11.4	----------
Percent increase	−35.0	−98.7	16,592.2	−2.3	373.1
Prohibitive	$586	$576	$608	$602	$13
Percent of total [2]	----------	----------	----------	----------	----------
Percent increase	6.5	−1.7	5.4	−1.0	2.2
Customs	$357,608	$408,061	$470,505	$301,381	−$160,504
Percent of total	9.6	9.7	7.7	5.2	----------
Percent increase	18.7	14.1	15.3	−36.0	−34.7
Total	$3,716,838	$4,195,396	$6,087,594	$5,808,993	$2,414,142
Percent of totals	100.0	100.0	100.0	100.0	----------
Percent increase	12.8	12.9	45.1	4.6	71.1

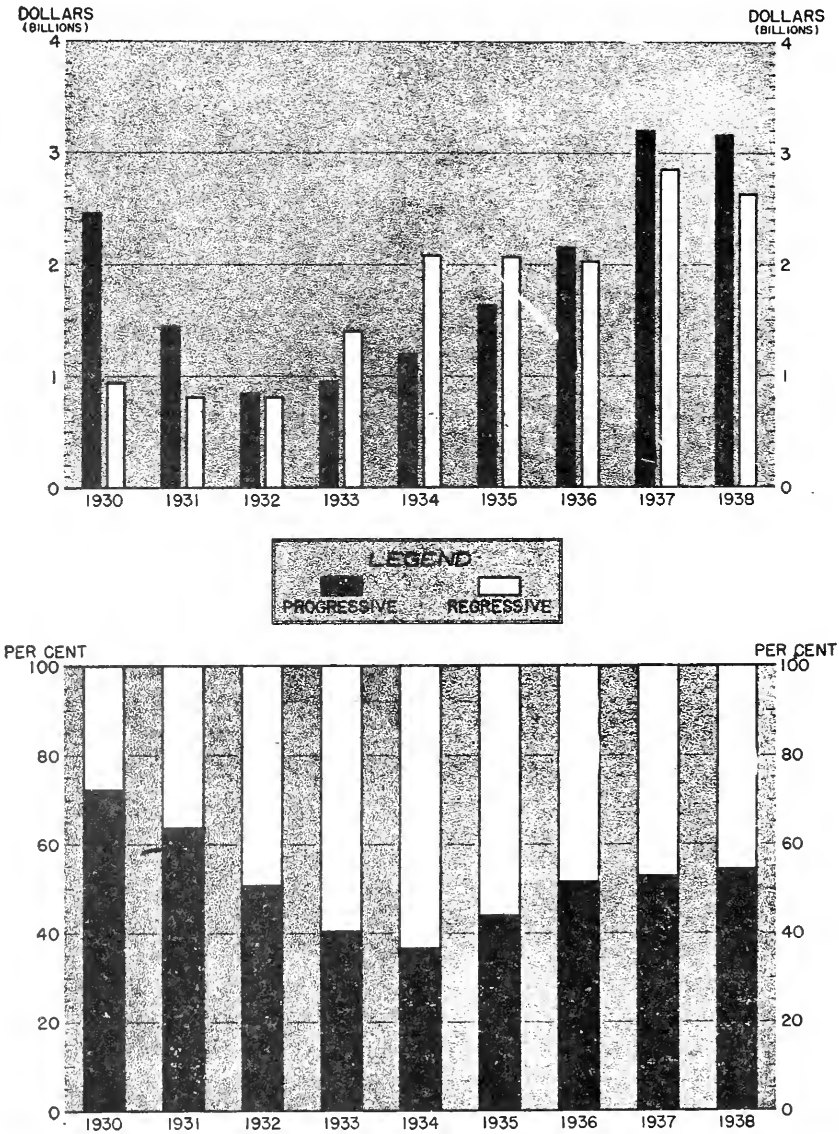
[1] Or first year thereafter in which the taxes were effective.
[2] Less than 0.1 percent throughout.

Source: Data taken from U. S. Treasury Department, Comparative Statement of Internal Revenue Collections by Tax Sources, 1930–38, and Report of the Secretary of the Treasury, 1939, p. 387.

CHART 12

PROGRESSIVE AND REGRESSIVE TAXATION

TOTAL FEDERAL TAX REVENUES, 1930 1938



SOURCE: U.S. Treasury Department, COMPARATIVE STATEMENT OF INTERNAL REVENUE COLLECTIONS BY TAX SOURCES, 1930-1938.

The table on progressive and regressive taxes indicates the trend in total tax yields, as well as the movement in the two broad groups displayed, and their relation to the total. It also shows the annual percentage changes in each group.

Total Federal revenues increased 71 percent from 1930 to 1938. During those years they rose from $3,394,852,000 to $5,808,994,000. In this rapid expansion progressive taxes increased only 30.7 percent while regressive forms grew 145.4 percent. Progressive taxes contributed 72.2 percent of the smaller total of 1930, and only 54.6 percent of the much larger revenues of 1938. Regressive taxes, on the other hand, rose from 14.2 percent of all revenues in 1930 to 28.8 percent in 1938. The tax systems in the 2 years compared are not identical, however. The whole social security program developed between 1930 and 1938, to become 11.4 percent of all revenues collected in 1938. Also, customs duties declined in importance, dropping from 13.6 to 5.2 percent of the total during these years.

If we consider only the progressive and the consumption, or strictly regressive taxes, we can determine the relative changes in their positions. On this basis, progressive taxes declined from 83.5 percent of the total in 1930 to 65.6 percent in 1938; while consumption taxes rose from 16.5 to 34.4 percent of the total in the same years.

The progressive taxes for the most part are not new, but the regressive group includes a whole series of "temporary taxes" levied by Congress in its attempt to obtain increased revenues during the depression. Congress apparently sought revenues wherever obtainable, imposing new excises and raising rates on old ones, closing income tax loopholes, increasing rates, and devising new levies on business profits.

In actual dollars, $725,796,000 more was collected from progressive taxes in 1938 than in 1930, while regressive taxes yielded $1,183,808,000 more. The brunt of the expanded Federal revenue program has been borne by the people, largely the consuming public, not in proportion to their individual abilities to pay taxes, but according to their inability to resist the imposition of added indirect taxes.

The effect of general economic conditions on tax yields is again shown in the table. The drop from 1930 to 1931 was 32.7 percent, with a further decline of 26.5 percent to the low point in 1932 when the Federal Government collected $1,679,669,000 in revenues. Then, after a frantic search for new tax sources, the imposition of many new taxes, and increased rates on old ones, revenues began to increase. The combination of improved business conditions and the enlarged Federal tax program brought in increased revenues until 1938, when the effect of the recession was felt.

Progressive taxes are more sensitive to general economic conditions and changes in the national income than are regressive taxes. The latter are largely excises or sales taxes on consumption goods, which, while they are fairly sensitive to general economic conditions, do not fluctuate as widely as progressive taxes which are drastically affected by shifts in large individual incomes or profits of great corporations.

PROGRESSIVE FEDERAL TAXES

In table 30, charts 13 and 14, are displayed the taxes collected on personal net income, business profits, or fortunes either willed or given

away. In 1938 the relative importance of each of these taxes in relation to the total yield of progressive levies was as follows:

Tax	*Percentage of progressive yield*
Corporation income	41.7
Individual net income	39.2
Estates	11.2
Capital stock	4.0
Excess profits	1.4
Gift	1.1
Bonds, stock issues, conveyances	.6
Stock transfers	.6
Unjust enrichment through A. A. A. taxes	.2
Produce futures	

TABLE 30.—*Progressive sources of Federal tax revenue, 1930–38*

[Dollar figures in thousands]

Source	1930	1931	1932	1933	1934
Individual income	$1,090,373	$567,227	$320,426	$375,284	$451,746
Percent of total	44.5	38.9	37.5	39.1	37.3
Dividends				$27,982	$22,784
Percent of total				2.9	1.9
Estates	$60,640	$55,576	$29,770	$63,717	$118,971
Percent of total	2.5	3.8	3.5	6.6	9.8
Gifts			$4	$4,858	$9,437
Percent of total				0.5	0.8
Corporation incomes	$1,242,596	$800,809	$464,191	$345,174	$469,028
Percent of total	50.7	54.9	54.3	36.0	38.6
Unjust enrichment through A. A. A. taxes					
Percent of total					
Excess profits				$66	$5,407
Percent of total					0.5
Capital stock				$79,340	$91,088
Percent of total				8.3	7.5
Bonds, stock issues, conveyances	$20,037	$10,964	$12,472	$15,318	$17,031
Percent of total	0.8	0.8	1.5	1.6	1.4
Stock transfers	$33,828	$22,384	$24,810	$40,249	$20,768
Percent of total	1.4	1.5	2.9	4.2	1.7
Produce futures	$2,518	$1,110	$2,460	$7,479	$4,950
Percent of total	0.1	0.1	0.3	0.8	0.4
Silver bullion					$658
Percent of total					0.1
Total	$2,449,992	$1,458,070	$854,133	$959,467	$1,211,868
Percent of total	100.0	100.0	100.0	100.0	100.0

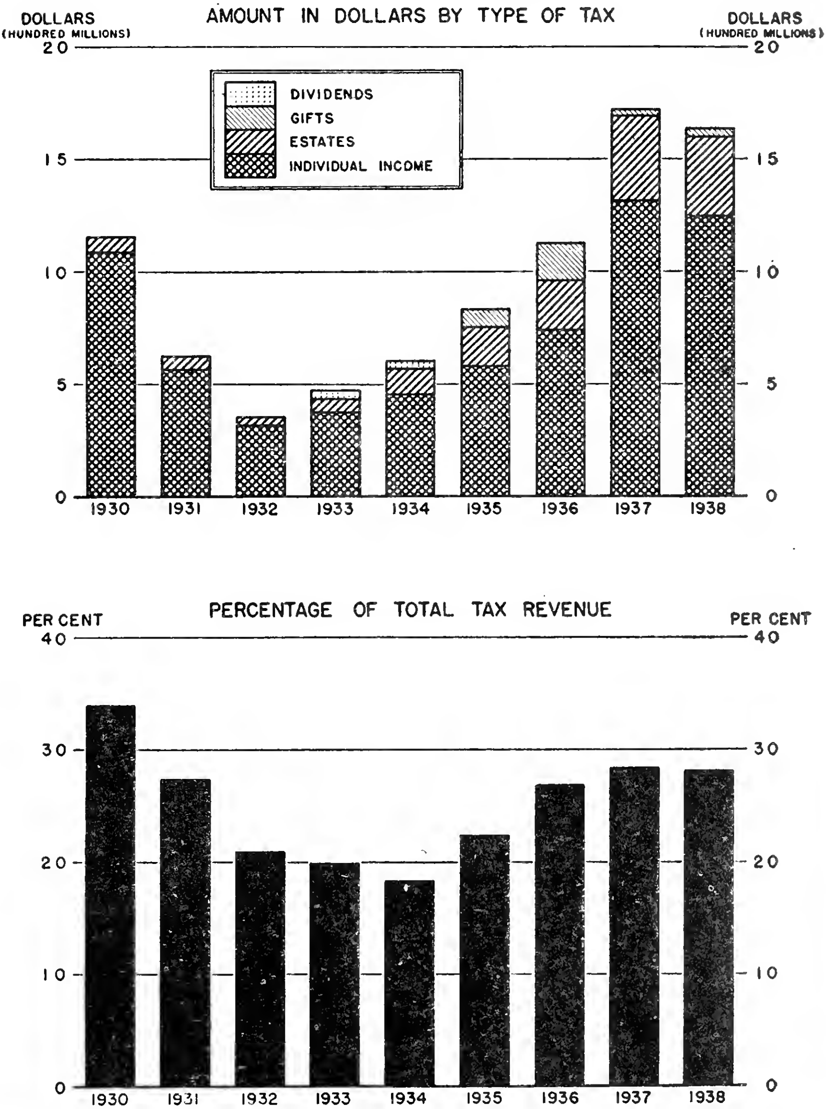
Source	1935	1936	1937	1938
Individual income	$579,660	$739,932	$1,318,994	$1,244,106
Percent of total	35.4	34.2	41.0	39.2
Dividends	$718	$131		
Percent of total				
Estates	$175,427	$222,490	$378,873	$355,166
Percent of total	10.8	10.3	11.7	11.2
Gifts	$72,592	$163,027	$22,485	$35,004
Percent of total	4.4	7.5	0.7	1.1
Corporation incomes	$655,314	$811,720	$1,265,984	$1,324,293
Percent of total	40.0	37.5	39.3	41.7
Unjust enrichment through A. A. A. taxes		$515	$7,887	$7,372
Percent of total			0.2	0.2
Excess profits	$7,212	$23,313	$24,661	$44,446
Percent of total	0.4	1.1	0.8	1.4
Capital stock	$93,887	$137,069	$140,691	$127,467
Percent of total	5.8	6.4	4.4	4.0
Bonds, stock issues, conveyances	$23,329	$28,579	$25,573	$19,033
Percent of total	1.4	1.3	0.8	0.6
Stock transfers	$24,135	$31,974	$27,699	$17,432
Percent of total	1.5	1.5	0.9	0.6
Produce futures	$3,277	$3,350	$5,445	$1,344
Percent of total	0.2	0.2	0.2	
Silver bullion	$876	$859	$172	$125
Percent of total	0.1			
Total	$1,636,427	$2,162,959	$3,218,464	$3,175,788
Percent of total	100.0	100.0	100.0	100.0

Source: Data taken from U. S. Treasury Department, Comparative Statement of Internal Revenue Collections by Tax Sources, 1930–38.

CHART 13

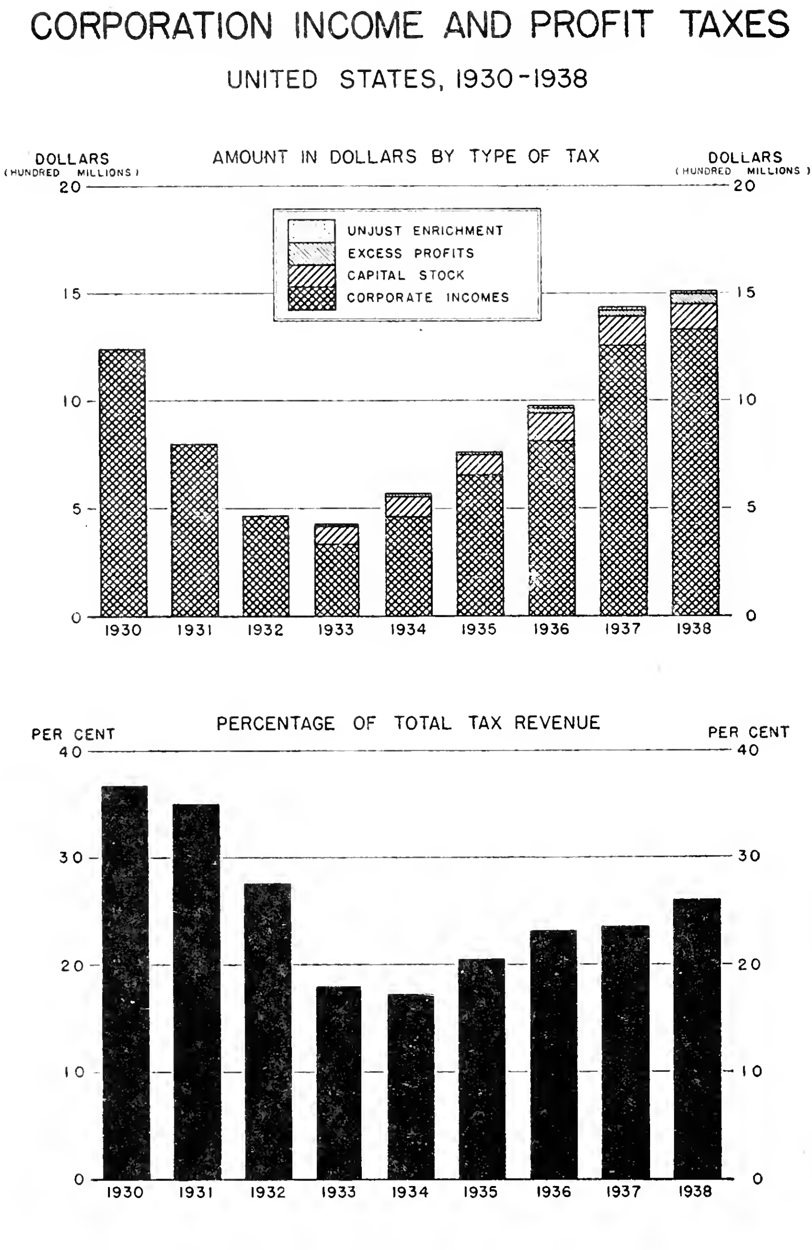
INDIVIDUAL INCOME, DIVIDEND, ESTATE AND GIFT TAX COLLECTIONS

UNITED STATES, 1930-1938



SOURCE Data Taken From U.S. Treasury, COMPARATIVE STATEMENT OF INTERNAL REVENUE COLLECTIONS BY TAX SOURCES, 1930-1938

CHART 14



SOURCE Data Taken From U S Treasury Department, COMPARATIVE STATEMENT OF INTERNAL REVENUE COLLECTIONS BY TAX SOURCES, 1930-1938

In terms of revenue the Federal Goverment depends primarily on three forms of progressive taxes: corporate and individual net income taxes, and levies on the estates of deceased persons. The other taxes, on business operations and profits, are of only very minor importance from the revenue standpoint, however much they may be needed for business regulation, or in order to plug loopholes in income taxation. The gift tax, for example, furnishes only 1.1 percent of progressive revenues, but it is an integral and necessary part of the income-tax structure.

Individual income tax

Since 1913, when a constitutional amendment permitted the Federal Government to levy direct taxes, the personal net-income tax has undergone frequent changes in rates, definition of income, computation of the tax, and administrative procedure. By 1940, 12 Congresses had wrought such changes.

The rate structure has depended on general economic conditions, the character of the national administration, and the need for Federal revenues. Under the pressure of patriotic sacrifice engendered during the World War, income taxes were rapidly developed, until in 1920 they contributed 59 percent of Federal revenues. Then began the conservative era, when the attitude prevailed that income taxation throttled business initiative. Income-tax rates were substantially lowered, and the role of this tax in the Federal-revenue system declined.[13]

In table 31 statistical data are offered on the personal net-income tax. The tax is levied and collected primarily on the income of the prior year; thus, in 1930 the Federal Government collected $1,090,373,000 in individual income taxes based on income received by taxpayers during 1929.

By 1930 the effects of the 1929 crash were so pronounced that income tax collections in 1931 totaled only $567,227,000, a decline in a single year of 48 percent. But the downward plunge was not yet over, as income tax yields in 1932 dropped another 43 percent. Rate revision brought some pick-up in 1933. Thereafter, yearly gains were substantial, until in 1937 collections totaled $1,318,994,000, or considerably more than the yield in the prosperous year 1929. As income in 1936 was 17.7 percent less than in 1929, the rise in tax yield was primarily due to changes in the rates imposed, closing of loopholes in the tax, and better administration.

The recession beginning late in 1937 adversely affected the yield of the individual income tax. The 1938 total dropped slightly less than 6 percent below the peak of 1937.

Certain essential features of the individual income tax must be understood as a basis for any discussion of income taxation. It is assumed that it is possible to determine the amount of individual net income, after deducting certain items believed to interfere with the concept of true net income. Further credits and allowances are made for reasonable living expenses or for the nature of the income received. While it has not been easy to reach an agreement on such deductions, credits, and allowances, nor to determine the nature of income, still a fairly satisfactory conclusion has been reached, and there is less and less demand yearly for drastic changes in the tax.

[13] See H. D. Anderson, Our California State Taxes, Stanford University Press, 1937, ch. VII for a more detailed summary of the history of the income tax.

TABLE 31.—*Individual income, dividend, estate and gift tax collections, 1930–38*

[Dollar figures in thousands]

Source	1930	1931	1932	1933	1934
Individual incomes	$1,090,373	$567,227	$320,426	$375,284	$451,746
Percent of total	94.7	91.1	91.5	79.6	74.9
Percent increase		−48.0	−43.5	17.1	20.4
Dividends				$27,982	$22,784
Percent of total				5.9	3.8
Percent increase					−18.6
Estates	$60,640	$55,576	$29,770	$63,717	$118,971
Percent of total	5.3	8.9	8.5	13.5	19.7
Percent increase		−8.4	−46.4	114.0	86.7
Gifts			$4	$4,858	$9,437
Percent of total				1.0	1.6
Percent increase				121,350.0	94.3
Total	$1,151,013	$622,803	$350,200	$471,841	$602,938
Percent of total	100.0	100.0	100.0	100.0	100.0
Percent increase		−45.9	−43.8	34.7	27.8

Source	1935	1936	1937	1938	1938 over 1930 [1]
Individual incomes	$579,660	$739,932	$1,318,994	$1,244,106	$153,733
Percent of total	70.0	65.7	76.6	76.1	
Percent increase	28.3	27.6	78.3	−5.7	−14.1
Dividends	$718	$131			
Percent of total	0.1				
Percent increase	−96.9	−81.8			
Estates	$175,427	$222,490	$378,873	$355,166	$294,526
Percent of total	21.2	19.8	22.1	21.7	
Percent increase	47.5	26.8	70.3	−6.3	485.7
Gifts	$72,592	$163,027	$22,485	$35,004	$35,000
Percent of total	8.7	14.5	1.3	2.2	
Percent increase	669.2	124.6	−86.2	55.7	875,000.0
Total	$828,397	$1,125,580	$1,720,352	$1,634,276	$483,263
Percent of total	100.0	100.0	100.0	100.0	
Percent increase	37.4	35.8	52.9	−5.0	42.0

[1] Or first year thereafter in which the tax was effective.

Source: Data taken from U. S. Treasury Department, Comparative Statement of Internal Revenue Collections by Tax Sources, 1930–38.

There is a sharp distinction between net and gross income taxes. The net income tax is based on the amount remaining in the individual's possession, after deducting the expenses of producing that income, and the exemptions and allowances permitted by the tax statute. The gross income tax makes no allowance for the cost of producing the income or whether it is available for the use of the person producing it. The net income tax is levied on the final receiver of income and constitutes a tax on his profits, wages, or salary. The gross income tax is levied on the person who reports gross income, although it may be only momentarily in his possession and thereafter relayed onward by him as a part of a business transaction in which he has participated, with or without profit to himself.

The 1939 individual income tax was levied at the rate of 4 percent of net taxable income, plus surtaxes for various increments of income. This statement is important to note, for it is frequently said that the tax is a flat percentage of income, although only the basic 4 percent is levied in that manner. All surtaxes are based on increments of income, and rates are progressively higher on higher incomes. Thus, the surtax is imposed in addition to the basic tax of 4 percent. The surtax rates in force in 1939 and the new rates levied in the Revenue Act of 1940 are given in table 32.

TABLE 32.—*Individual net income tax rates, 1939–40*

Amount of surtax net income	1939 Law		1940 Law	
	Rate (percent)	Total surtax on higher amount	Rate (percent)	Total surtax on higher amount
$0 to $4,000				
$4,000 to $6,000	4	$80	4	$80
$6,000 to $8,000	5	180	6	200
$8,000 to $10,000	6	300	8	360
$10,000 to $12,000	7	440	10	560
$12,000 to $14,000	8	600	12	800
$14,000 to $16,000	9	780	15	1,100
$16,000 to $18,000	11	1,000	18	1,460
$18,000 to $20,000	13	1,260	21	1,880
$20,000 to $22,000	15	1,560	24	2,360
$22,000 to $24,000	17	1,900	27	2,900
$24,000 to $26,000	17	2,240	27	3,440
$26,000 to $28,000	19	2,620	30	4,040
$28,000 to $32,000	19	3,380	30	5,240
$32,000 to $36,000	21	4,220	33	6,560
$36,000 to $38,000	21	4,640	33	7,220
$38,000 to $40,000	24	5,120	36	7,940
$40,000 to $44,000	24	6,080	36	9,380
$44,000 to $45,000	27	6,350	40	9,780
$45,000 to $50,000	27	7,700	40	11,780
$50,000 to $56,000	31	9,560	44	14,420
$56,000 to $60,000	35	10,960	44	16,180
$60,000 to $62,000	35	11,660	47	17,120
$62,000 to $68,000	39	14,000	47	19,940
$68,000 to $70,000	43	14,860	47	20,880
$70,000 to $74,000	43	16,580	50	22,880
$74,000 to $80,000	47	19,400	50	25,880
$80,000 to $90,000	51	24,500	53	31,180
$90,000 to $100,000	55	30,000	56	36,780
$100,000 to $150,000	58	59,000	58	65,780
$150,000 to $200,000	60	89,000	60	95,780
$200,000 to $250,000	62	120,000	62	126,780
$250,000 to $300,000	64	152,000	64	158,780
$300,000 to $400,000	66	218,000	66	224,780
$400,000 to $500,000	68	286,000	68	292,780
$500,000 to $750,000	70	461,000	70	467,780
$750,000 to $1,000,000	72	641,000	72	647,870
$1,000,000 to $2,000,000	73	1,371,000	73	1,377,780
$2,000,000 to $5,000,000	74	3,591,000	74	3,597,780
$5,000,000 and up	75		75	

Here is how the new tax structure would work, using, for example, a married man with $10,000 net earned income:

Normal tax.—After deducting $1,000 for the 10-percent credit on earned income and $2,000 personal exemption, he would pay the 4 percent normal tax on a $7,000 base, or $280 normal tax.

Surtax.—To compute the surtax he can deduct personal exemption, but not the earned income credit, so the surtax would be based on $8,000. As shown by the table above, he would pay nothing on the first $4,000, 4 percent on the next $2,000, or $80; and 6 percent on the remaining $2,000, or $120, making the surtax $200.

Supertax.—The new defense revenue bill also levies a flat 10-percent supertax on regular income taxes, not to exceed 10 percent of the net income remaining after tax. In this illustration the normal and surtax amount to $480, to which the supertax would add $48, making the total tax $528.

Source: Instructions for Form 1040, and Revenue Act of 1940.

General provisions of the tax on 1939 incomes are as follows:

WHO MUST MAKE A RETURN.—Every citizen and resident of the United States who during the year falls within one of the following groups:

(1) *Single, or married and not living with husband or wife for any part of the taxable year.*—If having a net income of $1,000 or more or a gross income of $5,000 or more. (Exemption lowered to $800 in the Defense Act of 1940.)

(2) *Married couples living together for the entire taxable year.*—If each has a gross income and the combined net income of the two is $2,500 or over. If only one has a gross income and his net income is $2,500 or over, such person shall make a return. (This exemption is lowered to $2,000 in the Defense Act of 1940.)

(3) *Married and living with husband or wife for only part of the taxable year.*—If each has a gross income and the combined net income of the two is equal to, or in excess of, their total credits for personal exemption (computed without regard for credit as head of family). If only one has a gross income, if his net income

is equal to, or in excess of, his credit for personal exemption (computed without regard for credit as head of family), or his gross income is $5,000 or over.

Joint Returns: May be filed by husband and wife if they are both citizens or residents and if living together at the end of the taxable year, even though one has no gross income.

Deceased Individuals: Return required on the regular income-tax form if net income to date of death is $1,000 or over, if unmarried, or equal to, or in excess of, credit for personal exemption (computed without regard to status as head of family), if married and living with spouse or if gross income is $5,000 or over. The return for a decedent shall include all items of income and deductions accrued up to the date of death, regardless of the fact that the decedent may have kept his books on a cash basis or kept no books.

Filing of Returns and Payment of Tax.—Returns must be filed on or before 15th day of third month following close of taxable year, with collector for the district in which the taxpayer has his legal residence or principal place of business. Tax may be paid in cash at collector's office, or by check or money order payable to Collector of Internal Revenue. It may be paid in full with return or in four equal installments, on or before the 15th day of the third, sixth, ninth, and twelfth month after the close of the taxable year.

Received or Accrued Income.—If books are kept on accrual basis, all income accrued is to be reported, even though not received or entered on books, and expenses incurred even though not paid. If books are not kept on accrual basis, or if no books are kept, all income actually or constructively received, and all expenses paid, should be reported.

Items Exempt From Tax.—

1. The following items are partially exempt from tax:

(*a*) Amounts received (other than amounts paid by reason of the death of the insured and interest payments on such amounts and other than amounts received as annuities) under a life insurance or endowment contract, but if such amounts (when added to amounts received before the taxable year under such contract) exceed the aggregate premiums or consideration paid (whether or not paid during the taxable year), then the excess shall be included in gross income.

(*b*) The interest on United States Savings Bonds and Treasury Bonds owned in excess of $5,000, and interest on obligations of instrumentalities of the United States (other than obligations issued under the Federal Farm Loan Act or under such Act as amended) is subject to surtax if the surtax net income is over $4,000.

(*c*) Dividends on share accounts in federal savings and loan associations, but such dividends are subject to surtax if the surtax net income is over $4,000.

2. The following items are wholly exempt from tax:

(*a*) Amounts received under a life insurance contract paid by reason of the death of the insured; whether in a single sum or in installments (but if such amounts are held by the insurer under an agreement to pay interest thereon, the interest payments shall be included in gross income);

(*b*) Gifts (not received as a consideration for service rendered) and money and property acquired by bequest, devise, or inheritance (but the income derived from such property is taxable and must be reported);

(*c*) Amounts received through accident or health insurance or under workmen's compensation acts, as compensation for personal injuries or sickness, plus the amount of any damages received, whether by suit or agreement, on account of such injuries or sickness;

(*d*) The rental value of a dwelling house and appurtenances thereof furnished to a minister of the gospel as part of his compensation;

(*e*) Pensions and compensation received by veterans from the United States and pensions received from the United States by the family of a veteran, for services rendered by the veteran to the United States in time of war;

(*f*) Amounts received as earned income from sources without the United States (except amounts paid by the United States or any agency thereof) by an individual citizen of the United States who is a bona fide nonresident for more than 6 months during the taxable year (the taxpayer in such a case may not deduct from his gross income any amount properly allocable to, or chargeable against, the amount so excluded from his gross income); and

(*g*) The interest on (1) obligations of a state, territory, or political subdivision thereof, or the District of Columbia, or United States possessions; (2) obligations issued under Federal Farm Loan Act, or under such Act as amended; (3) obligations of the United States issued on or before September 1, 1917; and (4) Treasury Notes, Treasury Bills, and Treasury Certificates of Indebtedness.

Depreciation and Depletion.—A reasonable allowance for exhaustion, wear and tear, including obsolescence, of property used in trade or business may be deducted, based on cost if acquired by purchase after February 28, 1913.

Information at Source.—Every person making payments of (1) interest, rents, commissions, or other fixed or determinable income of $1,000 or more during the calendar year 1939 to an individual, a partnership, or a fiduciary, or (2) salary or wages of $1,000 or more to a single person or $2,500 or more to a married person shall make a separate return. (These exemptions have been changed to $800, 800, and $1,000, respectively, in the Defense Act of 1940.)

Stock Owned in Foreign Corporations and Personal Holding Companies.—If at any time during the year the taxpayer owned directly or indirectly stock in a foreign corporation, or a personal holding company, a statement should be attached showing name and address of each such company and total number of shares of each class of outstanding stock owned. If at any time during the year taxpayer owned stock in a foreign personal holding company, the amount required by section 337 of the Internal Revenue Code should be included in income as a dividend, and if taxpayer owned 5 percent or more in value of the outstanding stock of such company, a statement should be attached giving in detail the information required by the internal revenue laws.

Other Income.—Any other taxable income should be entered, including taxable income from annuities and insurance proceeds, dividends on share accounts in Federal savings and loan associations, and earnings of minor children if parent is legally entitled thereto. Amounts received as an annuity under an annuity or endowment contract shall be included in gross income to the extent of 3 percent of the aggregate premiums or consideration paid for such annuity. If the aggregate of the amounts received and excluded from gross income in years previous to the taxable year equals the aggregate premiums or consideration paid for such annuity, the entire amount received must be included in gross income.

Contributions Paid.—Contributions and gifts should be entered (not to exceed 15 percent of taxpayer's net income computed without the benefit of this deduction), payment of which was made within the year, to or for the use of—

(*a*) The United States, any state, territory, or any political subdivision thereof, or the District of Columbia, for exclusively public purposes;

(*b*) A domestic corporation, or domestic trust, or domestic community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation;

(*c*) The special fund for vocational rehabilitation authorized by section 12 of the World War Veterans' Act, 1924;

(*d*) Posts or organizations of war veterans, or auxiliary units or societies of any such posts or organizations, if such posts, organizations, units, or societies are organized in the United States or any of its possessions, and if no part of their net earnings inures to the benefit of any private shareholder or individual; or

(*e*) A domestic fraternal society, order, or association, operating under the lodge system, but only if such contributions or gifts are to be used exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals.

Interest.—Interest on personal indebtedness is to be entered as distinguished from business indebtedness.

Taxes.—Taxes imposed and paid or accrued during the taxable year should be entered. Taxes assessed against local benefits, federal income taxes, or estate, inheritance, legacy, succession, and gift taxes, taxes imposed on interest as shareholder of a corporation which are paid by the corporation without reimbursement from taxpayer, and income taxes claimed as a credit are not to be included. Social security taxes paid by or for an employee are not deductible by the employee.

Losses.—Losses of property arising from fire, storm, shipwreck, or other casualty, or from theft, not compensated for by insurance or otherwise, may be entered. Property is to be described, with date acquired, cost of subsequent improvements, depreciation allowable, insurance, salvage value, and deductible loss.

Bad Debts.—Bad debts may be entered other than those claimed elsewhere. It must be shown (*a*) of what the debts consisted; (*b*) name and family relationship, if any, of debtor; (*c*) when created; (*d*) when due; (*e*) efforts made to collect;

and (*f*) how determined to be worthless. Losses from corporate securities with interest coupons or in registered form ascertained to be worthless and charged off within the year, and which are capital assets, may be shown.

OTHER DEDUCTIONS.—Other authorized deductions may be entered. Losses in transactions not connected with taxpayer's trade or business or not entered into for profit are not deductible. Losses from wagering transactions are allowable to the extent of gains therefrom.

CREDIT FOR PERSONAL EXEMPTION AND DEPENDENTS.—A single person, or a married person not living with spouse, is allowed a personal exemption of $1,000. A person who, during the entire taxable year, was the head of a family or was married and living with spouse, is allowed an exemption of $2,500. On separate returns, the personal exemption may be taken by either husband or wife or divided between them. (These exemptions have been changed to $800 and $2,000, respectively, in the Defense Act of 1940.)

A "head of a family" is one who supports in one household one or more dependent individuals closely connected with him by blood relationship, relationship by marriage, or by adoption, and whose right to exercise family control is based upon some moral or legal obligation.

A credit of $400 is allowed for each person (other than husband or wife) under 18 years of age, or incapable of self-support because mentally or physically defective, whose chief support was received from the taxpayer.

If taxpayer's status, with respect to personal exemption and credit for dependents, changed during the taxable year, such exemption and credit shall be apportioned according to the number of months before and after such change. For such apportionment a fractional part of a month is disregarded unless it exceeds half a month, when it shall be considered a month.

CREDIT FOR INTEREST, ETC.—Interest and also dividends on share accounts in federal savings and loan associations may be entered.

EARNED INCOME CREDIT.—"Earned income" means wages, salaries, professional fees, and other amounts received as compensation for personal services actually rendered. In the case of a taxpayer engaged in a trade or business in which both personal services and capital are material income-producing factors, a reasonable allowance as compensation for the personal services actually rendered by the taxpayer, not in excess of 20 percent of his share of the net profits of such trade or business, shall be considered as earned income. "Earned income deductions" means such ordinary and necessary expenses as are properly chargeable against earned income. "Earned net income" means the excess of the amount of the earned income over the sum of the earned income deductions. The earned income credit allowable to each spouse in a joint return is the same as is allowable to each spouse in separate returns; however, the earned income, earned income deductions, earned net income, and net income of each spouse must be shown separately.

INCOME TAX PAID AT SOURCE.—Two percent of interest on bonds on which federal income tax was paid at source by the debtor corporation may be entered.

Groves gives an example of how the Federal income tax is calculated for a hypothetical Mr. Smith, which calculation is here revised on the basis of the 1940 tax. The assumption is that Mr. Smith has a gross income of $15,000, of which $800 is not subject to the tax, $5,000 is deductible expenses, $2,500 is credits allowed, and earned income is $4,000. The tax is calculated as follows:[14]

[14] Harold M. Groves, Financing Government, Henry Holt, New York, 1939, p. 162.

Gross income	$15,000.00
Income not taxed	800.00
Gross income for tax purpose	14,200.00
Deductible business expenses	5,000.00
Net income for taxation purposes	9,200.00
Personal allowance (credits)	2,500.00
Net income minus personal credits (base of surtax)	6,700.00
Earned income credit (10 percent of $4,000)	400.00
Normal tax base	6,300.00
Normal tax: $6,300 × 4 percent	252.00
Surtax (base $6,700, with $4,000 exempt):	
$2,000 × 4 percent	80.00
$700 × 6 percent	42.00
Total	374.00
Defense tax (10 percent of total)	37.40
Total tax	411.40

Thus, Smith must pay $411.40 Federal income tax out of a gross income of $15,000, or a net taxable income, after all deductions and allowances, of $6,300. The Federal tax is 2.7 percent of Smith's gross income, 6.5 percent of his net taxable income.

Table 33, charts 15 and 16, offer certain important data on income taxpayers and taxes paid. The data cover the period 1929–36, the latest available returns from the Treasury. Chart 15 displays the data for the whole period by net income groups; chart 16 by net income classes within single years. The individual income tax regularly secures the highest percentage of returns from persons whose net incomes range from $1,000 to $5,000; but the highest percentage of tax revenues continues to come from that very small fraction of all taxpayers whose net incomes are over $100,000. Changes in the economic life of the Nation, in rates, and in other features of the individual income tax account for the year-to-year changes in the figures.

TABLE 33.—*Distribution of income-tax returns, net incomes reported, and tax assessed, compared with the increase or decrease in these items, 1929–36*

	Under $1,000	$1,000 to $5,000	$5,000 to $10,000	$10,000 to $15,000	$15,000 to $50,000	$50,000 to $100,000	$100,000 and over
1929:							
Returns	8, 539	1, 468, 879	606, 599	163, 743	171, 400	24, 073	14, 516
Percent of all	0. 35	59. 76	24. 66	6. 65	6. 97	0. 98	0. 59
Net incomes	$4, 852, 249	$4, 129, 864, 780	$4, 144, 455, 673	$1, 980, 152, 151	$4, 219, 539, 350	$1, 646, 476, 000	$4, 368, 151, 240
Percent of all	0. 24	20. 15	20. 22	9. 66	20. 59	8. 03	21. 31
Tax assessed	$17, 308	$4, 369, 953	$9, 550, 599	$15, 918, 395	$157, 878, 819	$160, 813, 524	$653, 389, 549
Percent of all	0. 00	0. 44	0. 96	1. 59	15. 76	16. 05	65. 22
1930:							
Returns	7, 976	1, 278, 423	491, 792	122, 625	116, 982	13, 645	6, 202
Percent of all	0. 39	62. 74	24. 14	6. 02	5. 74	0. 67	0. 30
Percent increase over 1929	−6. 59	−12. 97	−18. 93	−25. 11	−31. 75	−43. 42	−57. 27
Net incomes	$4, 443, 024	$3, 558, 345, 035	$3, 332, 471, 030	$1, 481, 098, 335	$2, 825, 271, 369	$919, 039, 755	$1, 571, 915, 757
Percent of all	0. 03	25. 99	24. 34	10. 82	20. 63	6. 71	11. 48
Percent increase over 1929	−8. 43	−13. 84	−19. 59	−25. 20	−33. 04	−44. 18	−64. 01
Tax assessed	$37, 282	$9, 930, 976	$17, 447, 591	$16, 275, 770	$105, 993, 029	$87, 379, 410	$239, 649, 950
Percent of all	0. 01	2. 08	3. 66	3. 41	22. 23	18. 33	50. 31
Percent increase over 1929	115. 40	127. 26	45. 26	2. 25	−32. 86	−45. 66	−63. 32
1931:							
Returns	6, 830	981, 745	363, 895	86, 956	75, 106	7, 830	3, 180
Percent of all	0. 45	64. 36	23. 85	5. 70	4. 91	0. 51	0. 20
Percent increase over 1930	−14. 37	−23. 21	−26. 01	−29. 09	−35. 80	−42. 62	−48. 73
Net incomes	$3, 719, 683	$2, 708, 745, 665	$2, 449, 920, 452	$1, 048, 074, 142	$1, 779, 294, 366	$528, 049, 139	$779, 214, 146
Percent of all	0. 04	29. 14	26. 35	11. 27	19. 14	5. 68	8. 38
Percent increase over 1930	−16. 28	−23. 88	−26. 48	−29. 24	−37. 02	−42. 54	−50. 43
Tax assessed	$23, 641	$7, 241, 207	$12, 407, 382	$10, 844, 741	$61, 148, 062	$44, 779, 946	$109, 682, 298
Percent of all	0. 01	2. 94	5. 05	4. 41	24. 83	18. 19	44. 55
Percent increase over 1930	−36. 59	−27. 08	−28. 89	−33. 37	−42. 31	−48. 75	−54. 23
1932:							
Returns	8, 700	1, 582, 345	239, 622	49, 494	48, 196	5, 902	1, 836
Percent of all	0. 45	81. 72	12. 39	2. 55	2. 48	0. 30	0. 09
Percent increase over 1931	27. 38	61. 18	−34. 15	−43. 08	−35. 83	−24. 62	−42. 26
Net incomes	$4, 679, 594	$3, 733, 437, 489	$1, 614, 741, 931	$595, 573, 563	$1, 194, 462, 969	$393, 206, 033	$383, 486, 276
Percent of all	0. 06	47. 14	20. 39	7. 52	15. 08	4. 96	4. 84
Percent increase over 1931	25. 81	37. 83	−34. 09	−43. 17	−25. 43	−25. 54	−50. 79
Tax assessed	$102, 827	$42, 971, 097	$35, 614, 899	$22, 788, 665	$70, 907, 246	$47, 149, 914	$110, 427, 653
Percent of all	0. 03	13. 17	10. 79	6. 91	21. 49	14. 29	33. 38
Percent increase over 1931	334. 91	493. 42	185. 85	110. 14	15. 96	5. 29	0. 68
1933:							
Returns	9, 167	1, 414, 072	222, 363	47, 033	47, 033	6, 021	2, 051
Percent of all	0. 52	80. 91	12. 73	2. 69	3. 56	0. 35	0. 12
Percent increase over 1932	5. 37	−10. 63	−7. 20	−4. 97	−2. 41	2. 01	11. 71
Net incomes	$4, 909, 341	$3, 260, 588, 129	$1, 497, 520, 560	$567, 025, 039	$1, 175, 065, 880	$401, 049, 219	$466, 502, 184
Percent of all	0. 07	44. 23	20. 31	7. 69	15. 94	5. 44	6. 33
Percent increase over 1932	4. 91	−12. 67	−7. 26	−4. 79	−1. 62	1. 99	−21. 65

Tax assessed	$97, 155	$36, 451, 938	$35, 077, 347	$23, 885, 377	$83, 446, 236	$57, 491, 233	$137, 671, 178
Percent of all	0. 03	9. 74	9. 39	6. 38	22. 31	15. 55	36. 80
Percent increase over 1932	−5. 52	−15. 17	−1. 51	4. 81	17. 68	21. 93	24. 67
1934:							
Returns	10, 059	1, 368, 940	284, 098	63, 368	60, 455	6, 093	1, 907
Percent of all	0. 56	76. 22	15. 83	3. 52	3. 37	0. 35	0. 11
Percent increase over 1933	9. 73	−3. 19	27. 76	34. 73	28. 54	1. 20	−7. 02
Net Incomes	$5, 458, 724	$3, 373, 838, 942	$1, 916, 387, 684	$765, 258, 868	$1, 456, 862, 998	$405, 976, 050	$419, 774, 970
Percent of all	0. 07	40. 44	22. 97	9. 17	17. 46	4. 87	5. 03
Percent increase over 1933	11. 19	3. 47	27. 97	34. 96	23. 98	1. 23	10. 02
Tax assessed	$111, 075	$34, 574, 528	$43, 086, 130	$33, 424, 211	$135, 442, 238	$84, 841, 998	$179, 969, 598
Percent of all	0. 02	6. 77	8. 50	6. 52	26. 48	16. 58	35. 20
Percent increase over 1933	14. 33	5. 15	22. 83	39. 95	62. 31	47. 53	30. 72
1935:							
Returns	10, 684	1, 610, 061	332, 872	75, 497	74, 096	8, 033	2, 647
Percent of all	0. 51	76. 33	15. 77	3. 57	3. 51	0. 37	0. 13
Percent increase over 1934	6. 21	17. 61	17. 17	19. 14	22. 56	31. 84	38. 80
Net incomes	$5, 804, 301	$3, 970, 773, 241	$2, 245, 536, 628	$911, 374, 803	$1, 793, 205, 794	$535, 772, 243	$571, 638, 965
Percent of all	0. 06	39. 57	22. 38	9. 08	17. 87	5. 34	5. 70
Percent increase over 1934	6. 33	17. 69	17. 18	19. 09	23. 09	31. 97	36. 18
Tax assessed	$124, 619	$40, 107, 189	$48, 728, 257	$41, 394, 343	$169, 030, 245	$113, 815, 936	$244, 238, 754
Percent of all	0. 02	6. 10	7. 41	6. 30	25. 70	17. 15	37. 29
Percent increase over 1934	12. 19	16. 00	13. 09	23. 85	24. 80	34. 15	35. 71
1936:							
Returns	19, 329	2, 165, 517	440, 137	105, 582	112, 024	13, 620	4, 719
Percent of all	0. 68	75. 69	15. 38	3. 69	3. 91	0. 48	0. 15
Percent increase over 1935	80. 92	34. 50	32. 24	39. 85	51. 19	69. 55	78. 28
Net incomes	$10, 251, 949	$5, 317, 963, 541	$2 973, 800, 163	$1, 277, 526, 087	$2, 751, 658, 859	$913, 518, 052	$974, 134, 899
Percent of all	0. 07	37. 40	20. 91	8. 98	19. 35	6. 43	6. 85
Percent increase over 1935	76. 63	33. 93	32. 43	40. 18	53. 45	70. 51	70. 41
Tax assessed	$330, 562	$60, 229, 541	$79, 429, 152	$67, 755, 086	$298, 476, 695	$216, 045, 020	$491, 090, 747
Percent of all	0. 03	4. 97	6. 53	5. 57	24. 59	17. 79	40. 45
Percent increase over 1935	165. 26	50. 17	63. 00	63. 68	86. 20	89. 82	101. 07

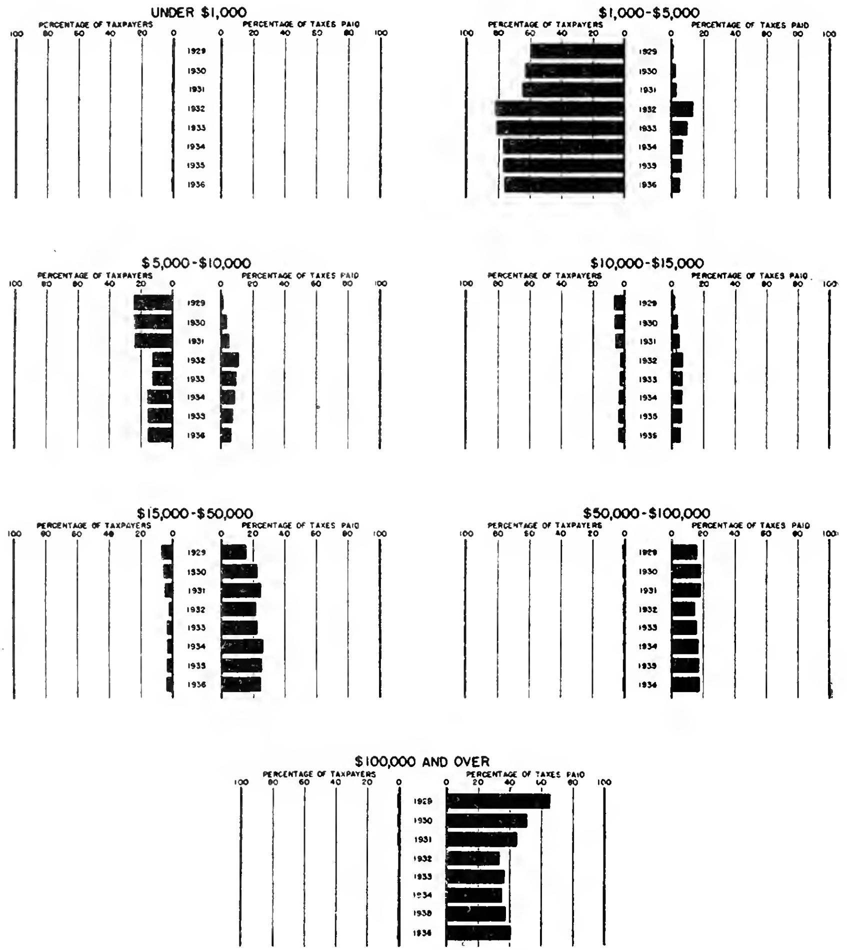
Source: U. S. Treasury Department, Statistics of Income, 1929–36.

Chart 15

PERCENTAGE OF INDIVIDUAL INCOME TAX PAYERS AND TAXES PAID

NET INCOME GROUPS BY YEARS

UNITED STATES, 1929-1936



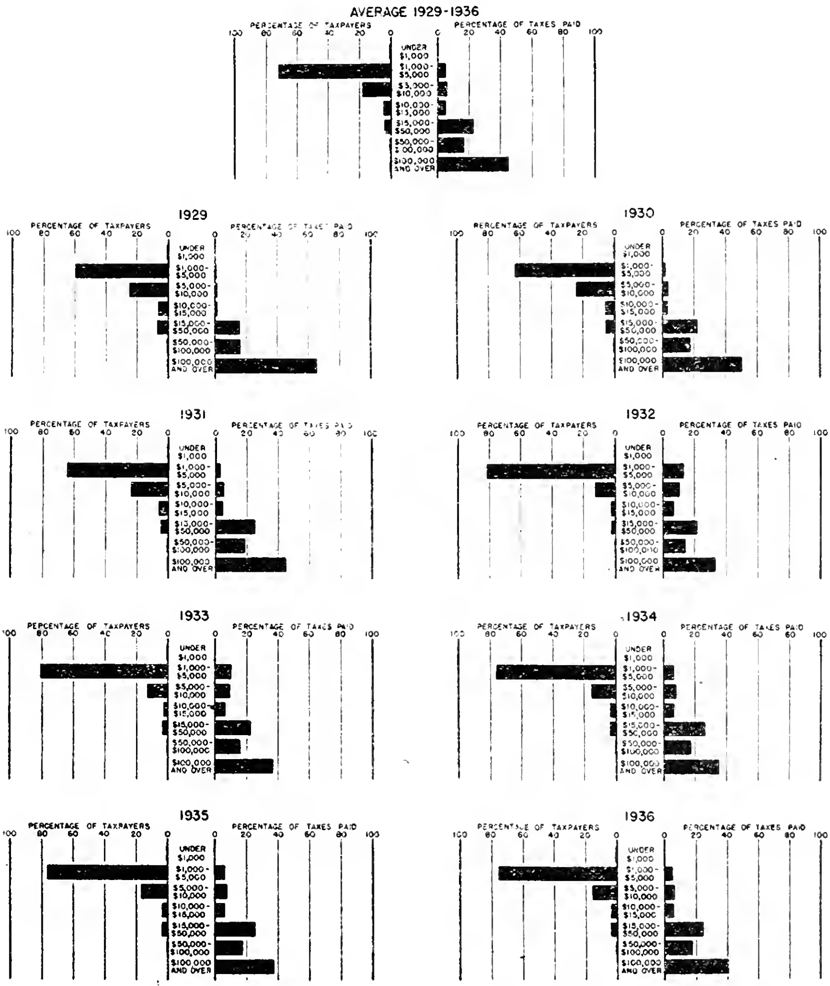
SOURCE: Statistics of Income, U S Treasury Department, 1929-1936

CHART 16

PERCENTAGE OF INDIVIDUAL INCOME TAX PAYERS AND TAXES PAID

BY NET INCOME CLASS

UNITED STATES, 1929-1936



SOURCE: Statistics of Income, U.S. Treasury Department, 1929-1936

In table 34 are analyzed personal income-tax returns for 1936, the latest available figures, showing the over-all impact of the income tax on various sized incomes. Number and percentage of returns filed, net income reported, total tax assessed, and percentage of net income taken by the tax are shown by classes of income receivers. The various groups are affected as follows:

Net income class	Percentage of—		
	Net income	Net income taken by tax	Net income remaining with recipient
Below $5,000	37.5	1.1	98.9
$5,000 to $10,000	20.9	2.7	97.3
$10,000 to $15,000	9.0	5.3	94.7
$15,000 to $50,000	19.4	10.9	89.1
$50,000 to $100,000	6.4	23.6	76.4
$100,000 to $500,000	5.2	45.0	55.0
$500,000 and over	1.6	67.7	32.2
Total	100.0		

TABLE 34.—*Average individual net income* [1] *and income tax paid in 1936, by income group*

Net income group	Number in group	Percent of total	Average net income	Average tax	Average income after tax	Percent of income remaining
Below $5,000	2,184,846	76.4	$2,438	$28	$2,410	98.9
$5,000 to $10,000	440,137	15.3	6,757	180	6,577	97.3
$10,000 to $15,000	105,582	3.7	12,100	642	11,458	94.7
$15,000 to $50,000	112,204	3.9	24,524	2,667	21,857	89.1
$50,000 to $100,000	13,620	.5	67,072	15,862	51,210	76.4
$100,000 to $500,000	4,480	.2	166,011	74,778	91,233	55.0
$500,000 and over	239		964,029	653,067	310,962	32.3
Total	2,861,108	100.0	4,970	424	4,546	91.5

[1] Excludes non-taxable income.

Source: Based on U. S. Treasury Department, Statistics of Income for 1936, Part 1, p. 84.

There are probably individuals in each bracket whose incomes and tax payments do not fit into the picture presented in the foregoing table, but the situation outlined there is generally true. For example, in the several brackets below $50,000 a year, the taxpayers retain from 89 to 99 percent of all net income. Even in the $50,000–$100,000 bracket, the individual income tax takes only 23.6 percent of net income, leaving three-fourths of the net income in the hands of the taxpayers.

Much attention has been called to the plight of the largest income group, those with net incomes over $500,000. In 1936, 239 such incomes were reported for taxation in the United States. Their net income subject to taxation averaged $964,029 and the average tax levy was $653,067. The net income remaining with the average person in this class was $310,962.

It was pointed out earlier that many States tax net income. These taxes levy on the same incomes as the Federal Government, hence must be added to the Federal tax to determine the full impact of individual income taxation. The State taxes are not uniform, and it is impossible, from available information, to secure accurate over-all figures. An illustration will help, however, and in tables 35 and 36 data are supplied for California, which levies a substantial income tax. Table 35 indicates the same progression in the impact of the State and Federal income tax in California, as revealed in the Federal figures presented above. In only one bracket, $10,000 to $15,000, does the share of total net income correspond closely to the percentage of total taxes paid.

TABLE 35.—*Federal and State income taxes levied, and net income reported, California, 1936, by income classes*

Net income class [1]	Taxable net income reported and tax assessed			
	Federal		State	
	Income	Tax assessed	Income	Tax assessed
Under 5	$482, 802, 888	$5, 639, 773	$596, 420, 000	$2, 076, 000
5 to 10	274, 066, 747	8, 143, 071	290, 845, 000	2, 135, 000
10 to 15	95, 338, 201	5, 570, 319	95, 620, 000	1, 278, 000
15 to 50	198, 706, 780	22, 235, 015	199, 703, 000	5, 625, 000
50 to 100	63, 500, 582	15, 034, 953	66, 801, 000	3, 996, 000
100 and over	43, 965, 290	19, 805, 219	45, 561, 000	4, 399, 000
All classes	1, 158, 380, 488	76, 428, 350	1, 294, 952, 000	19, 509, 000

Net income class [1]	Percentage of total income and tax assessed					
	Federal		State		Total	
	Income	Tax assessed	Income	Tax assessed	Tax assessed	Percent
Under 5	41.7	7.4	46.1	10.6	$7, 715, 773	8.0
5 to 10	23.7	10.7	22.5	10.9	10, 278, 071	10.7
10 to 15	8.2	7.3	7.4	6.6	6, 848, 319	7.1
15 to 50	17.2	29.1	15.4	28.8	27, 860, 015	29.0
50 to 100	5.5	19.7	5.2	20.5	19, 030, 953	19.8
100 and over	3.8	25.9	3.5	22.5	24, 204, 219	25.2
All classes	100.0	100.0	100.0	100.0	95, 937, 350	100.0

[1] Net income classes in thousands of dollars.

Source: Based on Statistics of Income for 1936, U. S. Treasury Department, and Personal Income Tax Statistics of 1936 Returns, State Franchise Commissioner, Sacramento, Calif., 1938, table 1.

Table 36 attempts to show the combined effect of State and Federal taxation. The table is necessarily crude, as the percentage of net income taken by the State tax is secured by dividing net income reported for Federal taxation into the amount of State tax assessed. There is some difference in the effect of the two tax laws on the recorded income groups, but as the California law is modeled closely after the Federal, this difference is probably too small to destroy the approximate truth of the table.

TABLE 36.—*Proportion of net income taken by Federal and State income taxes levied in California, 1936 (based on net income reported in taxable Federal returns)*

Net income class [1]	Net income reported for Federal taxation	Amount of tax assessed			Percentage of income taken by tax		
		Federal	State	Total	Federal	State	Total
Under 5	$482,802,888	$5,639,773	$2,076,000	$7,715,773	1.2	0.4	1.6
5 to 10	274,066,747	8,143,071	2,135,000	10,278,071	3.0	.8	3.8
10 to 15	95,338,201	5,570,319	1,278,000	6,848,319	5.8	1.3	7.2
15 to 50	198,706,780	22,235,015	5,625,000	27,860,015	11.2	2.8	14.0
50 to 100	63,500,582	15,034,953	3,996,000	19,030,953	23.7	6.3	30.0
100 and over	43,965,290	19,805,219	4,399,000	24,204,219	45.0	10.0	55.1
All classes	1,158,380,488	76,428,350	19,509,000	95,937,350	6.6	1.7	8.3

[1] Net income classes in thousands of dollars.

Source: Based on Statistics of Income for 1936, Part 1, U. S. Treasury Department, p. 109; and Personal Income Tax Statistics of 1936 Returns, State franchise commissioner, Sacramento, Calif., table 1.

The combined Federal and State net-income tax takes only 8.3 percent of all reported net incomes, although the impact varies among the several income classes. In the lowest bracket, those with incomes below $5,000, the two taxes take only 1.6 percent of reported net incomes. But in the bracket over $100,000 they take 55.1 percent of all net income.

In appendix A, where data are offered on the consumption and savings habits of the people, it was pointed out that persons with incomes of $20,000 or more save approximately half of their incomes. In 1936 the total net income of those people with net incomes over $20,000 and subject to the individual income tax was $3,847,217,000; they paid $949,277,600 in Federal income taxes, and had $2,897,940,000 or 75.3 percent of their total net income left over for business ventures, savings, spending, and certain other taxes. Such figures do not indicate that the present income tax is so burdening the upper incomes as to curtail business savings or jeopardize the accumulation of investment funds.

Dividends tax

From 1933 to 1936, the Federal Government collected a 5-percent tax on dividends declared, in an effort to obtain added revenue from corporations making a profit during the depression period. The tax was both unpopular and unprofitable, however, bringing in only $23,982,000 in its peak year, 1933.

Estates tax

The Federal Government levies a tax on all estates probated whose gross value is in excess of $40,000.[15] The tax is levied on the estate, rather than on the individual legatee, and the rate increases with the size of the estate. The rate schedule and tax paid are as

[15] The exemption is $50,000 for testators who died before August 31, 1935.

follows (the Defense Act of 1940 adds a tax of 10 percent on the amount calculated according to these rates): [16]

A Net estate equaling—	B Net estate not exceeding—	Tax on amount in column A	Rate of tax on excess over amount in column A
			Percent
----------	$10,000	----------	2
$10,000	20,000	$200	4
20,000	30,000	600	6
30,000	40,000	1,200	8
40,000	50,000	2,000	10
50,000	70,000	3,000	12
70,000	100,000	5,400	14
100,000	200,000	9,600	17
200,000	400,000	26,600	20
400,000	600,000	66,600	23
600,000	800,000	112,600	26
800,000	1,000,000	164,600	29
1,000,000	1,500,000	222,600	32
1,500,000	2,000,000	382,600	35
2,000,000	2,500,000	557,600	38
2,500,000	3,000,000	747,600	41
3,000,000	3,500,000	952,600	44
3,500,000	4,000,000	1,172,600	47
4,000,000	4,500,000	1,407,600	50
4,500,000	5,000,000	1,657,600	53
5,000,000	6,000,000	1,922,600	56
6,000,000	7,000,000	2,482,600	59
7,000,000	8,000,000	3,072,600	61
8,000,000	9,000,000	3,682,600	63
9,000,000	10,000,000	4,312,600	65
10,000,000	20,000,000	4,962,600	67
20,000,000	50,000,000	11,662,600	69
50,000,000	----------	32,362,600	70

These rates apply only to that portion of the estate above the $40,000 initial exemption, and each increment of the taxable estate bears only its own tax rate. Thus, although it is generally stated that a $50,000,000 estate bears a tax (including defense tax) of 77 percent, the actual rate is 71.2 percent, leaving $14,401,140 with the legatees.

Such exceptional fortunes are relatively rare, however, and are not representative of the effect of the estate tax. On a million dollar estate, which is also very large, the last increment is taxed at 32 percent. Yet the actual tax paid on the total is $222,600, or 22.3 percent, leaving more than three-quarters of the million dollars with the legatees.

In lower brackets, the initial exemption of $40,000 greatly reduces the impact of the tax. Thus, a net estate of $40,000 is taxed at 5 percent, or $2,000, but the tax on the whole $80,000 estate passed to legatees is only 2½ percent.

The Federal estates tax is levied in addition to any State inheritance taxes. Therefore, Federal and State taxes must be added together to show the full effect of inheritance taxation. The laws differ among the States, hence an illustration will have to serve here. Since the California inheritance tax is one of the heaviest in the United States, data on combined Federal and State taxes in California are offered in table 37, chart 17, to indicate the impact of estates taxation.

[16] U. S. Treasury Department Form 706.

TABLE 37.—*Effect of Federal estates tax and California inheritance tax, 1936*

Amount of estate inherited	Widow [1]			Brother, sister			Least of kin		
	Federal tax	State tax	Percentage taxed	Federal tax	State tax	Percentage taxed	Federal tax	State tax	Percentage taxed
$50,000	$200	$530	1.4	$200	$2,860	6.0	$200	$4,245	8.8
$100,000	4,200	2,250	6.4	4,200	7,800	12.0	4,200	10,244	14.4
$200,000	20,400	8,570	14.4	20,400	19,760	20.0	20,000	22,190	21.2
$500,000	81,000	35,090	23.2	81,000	58,480	27.0	81,000	52,242	26.6
$1,000,000	211,600	84,850	29.6	211,600	123,180	33.4	211,600	142,242	35.3

[1] These computations are based only on the taxed share of the estate, so that the widow in each case has her exempted half of the estate plus the sum remaining after paying the inheritance and estate tax. Thus, of a million-dollar estate, more than 85 percent remains in possession of the widow.

Source: H. D. Anderson, Our California State Taxes, Stanford University Press, Stanford University, California, 1937, p. 222.

The combined Federal and State taxes on even large fortunes is not severe enough to destroy them. Even the least of kin retains 65 percent of a million-dollar estate, whereas a widow inheriting a million dollars retains over 85 percent of it. In California, as in other community-property States, a community-property law exempts a spouse's half of the estate from taxation.

The generous deductions which are permitted by law in the computation of estates taxes greatly reduce the effective tax rate. Thus, while the topmost brackets of estates are popularly supposed to be burdened by a rate which extracts between 65 and 70 percent of their assets, the effective tax rate on an enormous estate of $10,000,000 is 49.6 percent. Moreover, the effective tax rate in relation to compiled net estates (total estate minus debts, disregarding all statutory deductions) was 26.6 percent of a $10,000,000 estate. (Figures given the author by Gerhard Colm.)

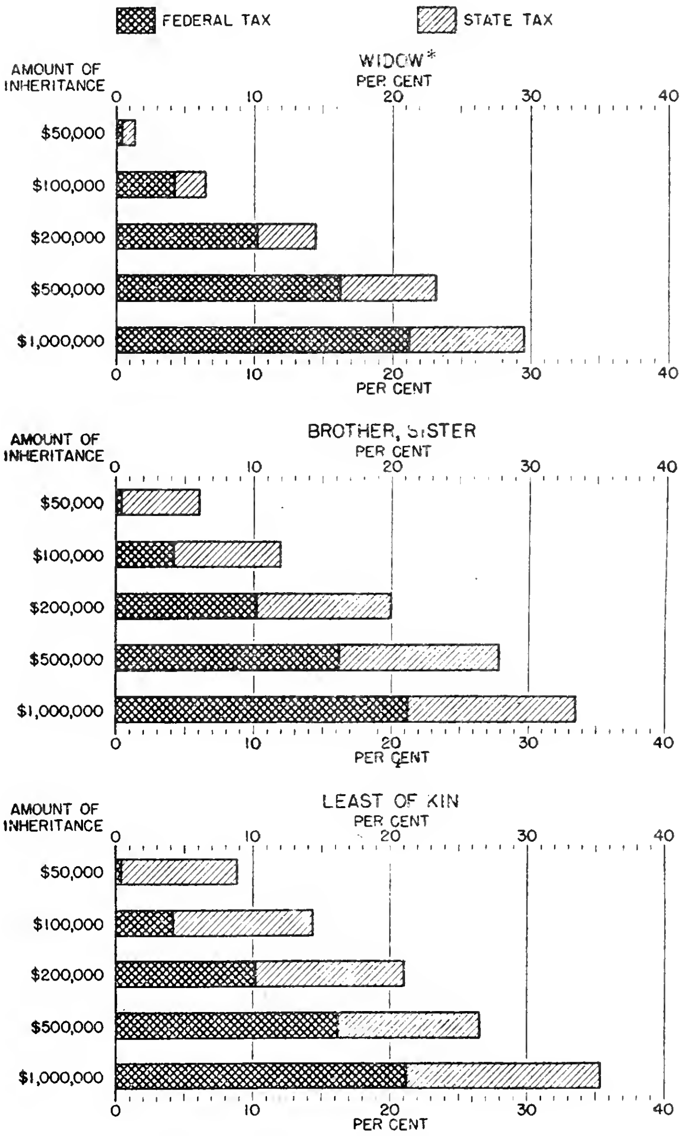
But even these figures do not tell the whole story about large estates, for they ignore such substantial loopholes as the transfer of property in anticipation of death. There is apparently no foundation for the fear that a heavy estates tax will break up industrial kingdoms like the Standard Oil Co. or the Ford Motor Co. The reputed fortune of John D. Rockefeller, for example, approximated a billion dollars. He gave a half billion to charity, and passed on to his immediate family during his lifetime the business capital and assets invested in his far-flung enterprises, so that at his death only $25,000,000 remained to be taxed. If the entire estate which he once owned had been subject to tax, the Treasury would have collected more than $300,000,000. As it was, the inheritance tax did not exceed a thirtieth of that sum.

Table 38, figures 18 and 19, showing Federal estates taxes by size of estates probated, indicates the impact of the tax. According to table 38, the number of estates subject to tax declined sharply during the depression, from 7,028 in 1930 to 3,944 in 1934; but recovered every year thereafter to a peak of 11,988 in 1937. However, while the number of estates has increased 70.6 percent from 1930 to 1937, their gross value declined 32.8 percent, indicating that while the number of taxable estates is increasing, the size of the individual holdings has grown smaller.

CHART 17

FEDERAL ESTATES AND STATE INHERITANCE TAXES

CALIFORNIA, 1936



SOURCE: Anderson, H. D., OUR CALIFORNIA STATE TAXES, Stanford University Press, Stanford University, California, 1937, p. 222

* These computations are based only on the taxed share of the estate, so that the widow in each case has her exempted half of the estate plus the sum remaining after paying the inheritance and estate tax. Thus, of a million-dollar estate, 88.4% remains in possession of the widow.

TABLE 38.—*Federal estate tax returns, gross estates and net taxes, by size of net estates, 1930–37* [1]

Taxable returns filed in calendar year	Net estate classes: Under $100,000	$100,000 to $1,000,000	$1,000,000 to $2,500,000	$2,500,000 to $5,000,000	$5,000,000 to $10,000,000	$10,000,000 and over	Total
1930:							
Returns	3,494	3,055	345	92	27	15	7,028
Percent of all	49.7	43.5	4.9	1.3	.4	.2	100.0
Gross estates	$630,243,441	$1,596,353,886	$681,415,611	$383,358,299	$252,133,419	$264,818,928	$3,808,323,584
Percent of all	16.5	41.9	17.9	10.1	6.6	7.0	100.0
Net taxes	$474,055	$8,128,194	$8,034,145	$6,986,639	$4,907,150	$10,472,878	$39,003,061
Percent of all	1.2	20.8	20.6	17.9	12.6	26.9	100.0
1931:							
Returns	3,266	2,669	307	77	28	17	6,364
Percent of all	51.3	41.9	4.8	1.2	.4	.3	100.0
Gross estates	$591,147,594	$1,438,118,304	$587,079,245	$339,006,684	$240,085,261	$521,631,140	$3,717,068,228
Percent of all	15.9	38.7	15.8	9.1	6.5	14.0	100.0
Net taxes	$428,385	$6,471,288	$7,607,913	$5,739,983	$4,700,753	$19,591,190	$44,539,512
Percent of all	1.0	14.5	17.1	12.9	10.5	44.0	100.0
1932:							
Returns	2,762	2,100	170	45	21	6	5,104
Percent of all	54.1	41.2	3.3	.9	.4	.1	100.0
Gross estates	$492,046,000	$1,089,527,000	$359,324,000	$191,743,000	$194,485,000	$119,970,000	$2,447,095,000
Percent of all	20.1	44.5	14.7	7.8	8.0	4.9	100.0
Net taxes	$402,000	$5,256,000	$3,947,000	$3,591,000	$3,426,000	$5,743,000	$22,365,000
Percent of all	1.8	23.5	17.6	16.1	15.3	25.7	100.0
1933:							
Returns [2]	4,858	1,473	104	21	8		6,464
Percent of all	75.2	22.8	1.6	.3	.1		100.0
Gross estates	$646,162,000	$747,967,000	$202,911,000	$92,932,000	$61,896,000		$1,751,868,000
Percent of all	36.9	42.7	11.6	5.3	3.5		100.0
Net taxes	$6,672,000	$24,328,000	$13,747,000	$9,424,000	$5,259,000		$59,430,000
Percent of all	11.2	40.9	23.1	15.9	8.9		100.0
1934:							
Returns [3]	6,318	1,496	131	30	4	2	7,981
Percent of all	79.2	18.7	1.6	.4	.1		100.0
Gross estates	$778,108,000	$753,112,000	$276,155,000	$138,348,000	$44,295,000	$35,393,000	$2,025,411,000
Percent of all	38.5	37.2	13.6	6.8	2.2	1.7	100.0
Net taxes	$10,028,000	$37,166,000	$20,279,000	$15,067,000	$5,033,000	$7,654,000	$95,227,000
Percent of all	10.5	39.0	21.3	15.8	5.3	8.0	100.0
1935:							
Returns [4]	4,997	1,141	92	23	9		6,262
Percent of all	79.8	18.2	1.5	.4	.1		100.0
Gross estates	$587,398,000	$560,579,000	$167,081,000	$80,741,000	$65,866,000		$1,461,665,000
Percent of all	40.2	38.4	11.4	5.5	4.5		100.0
Net taxes	$8,573,000	$41,413,000	$24,486,000	$16,098,000	$16,548,000		$107,118,000
Percent of all	8.0	38.7	22.9	15.0	15.4		100.0

1936:							
Returns [4]	7,342	1,453	112	22	12	6	8,947
Percent of all	82.1	16.2	1.3	.2	.1	.1	100.0
Gross estates	$810,221,000	$709,391,000	$227,520,000	$90,093,000	$95,060,000	$125,168,000	$2,057,453,000
Percent of all	39.4	34.5	11.0	4.4	4.6	6.1	100.0
Net taxes	$17,273,000	$62,754,000	$31,304,000	$17,572,000	$27,936,000	$38,038,000	$194,877,000
Percent of all	8.9	32.2	16.1	9.0	14.3	19.5	100.0
1937:							
Returns [5]	10,017	1,757	154	45	7	8	11,988
Percent of all	83.5	14.6	1.3	.4	.1	.1	100.0
Gross estates	$1,007,991,000	$834,639,000	$294,836,000	$182,868,000	$63,789,000	$174,328,000	$2,558,451,000
Percent of all	39.4	32.6	11.5	7.2	2.5	6.8	100.0
Net taxes:	$29,507,000	$92,571,000	$52,393,000	$41,809,000	$17,687,000	$71,803,000	$305,770,000
Percent of all	9.6	30.3	17.1	13.7	5.8	23.5	100.0

NOTE.—1935 and 1936 data are on a less inclusive basis than 1937; estates filed under 1926 and 1932 acts are included in 1937 data, but not in 1935 and 1936 data. If 1935 were on the same basis as 1937, number of returns would be 2,354 greater. However, number of returns in 1937 was increased by only 84, by including the 1926–32 group.

1 Excludes nontaxable returns.
2 Includes estates filed under Revenue Acts of 1926 and 1932.
3 Includes estates filed under Revenue Acts of 1926 and 1932, or 1926 and 1934.
4 Includes only estates filed under Revenue Acts of 1926 and 1934, or 1926 and 1935.
5 Does not include estates filed under revenue acts passed prior to 1926, or under 1926 act only.

Source: Based on Statistics of Income for year next preceding calendar year in which returns were filed. Computed from tables in the following volumes: 1929, table 1, pp. 46–51; 1930, table 1, pp. 54–59; 1931, table 1, pp. 50–53; 1932, table 1, pp. 52–55; 1933, table 1, pp. 52–55; 1934, Part I, tables 3 and 5, pp. 42, 43, 46, and 47; 1935, Part I, tables 3, 4, 6, and 7, pp. 51–55, 58–61; 1936, Part I, table 2, pp. 51, 52; and table 3, pp. 61–63.

CHART 18

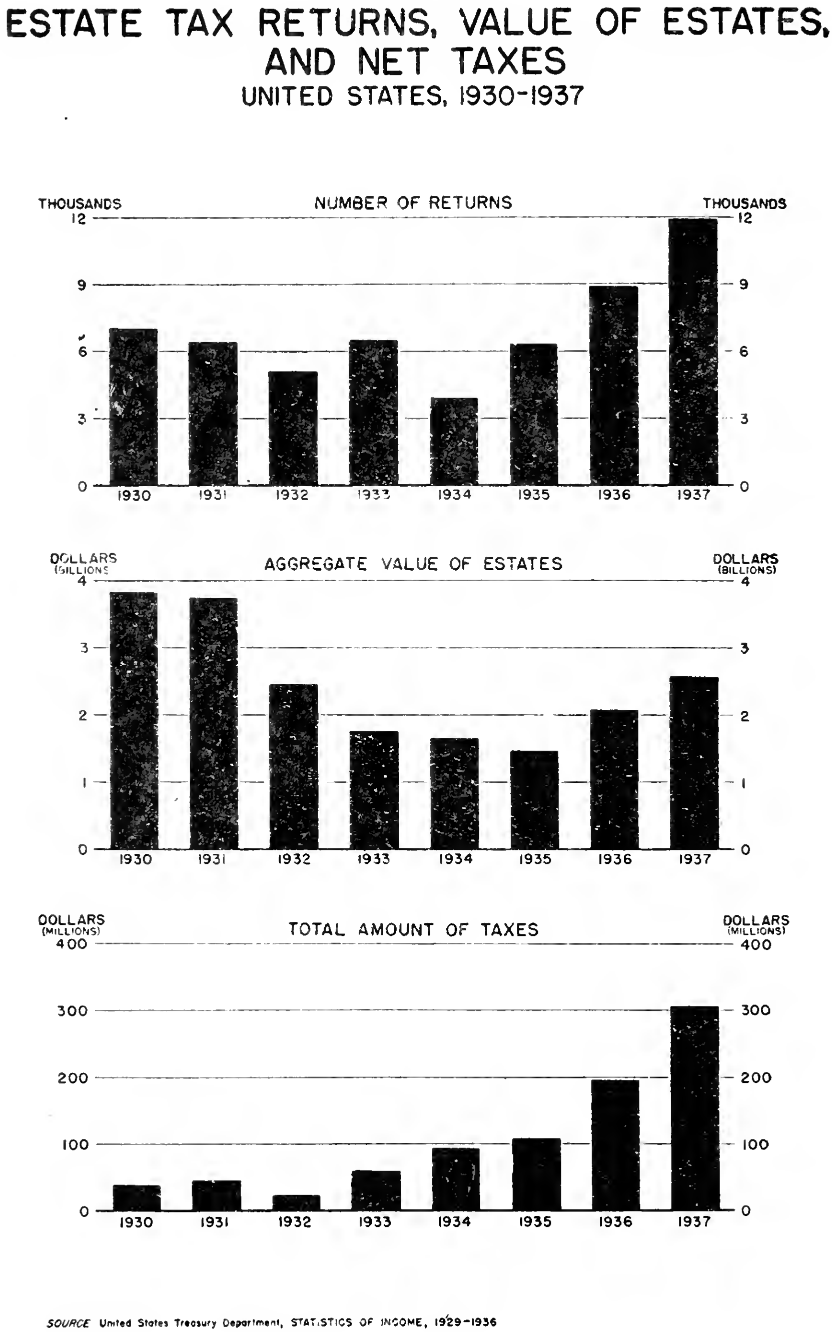
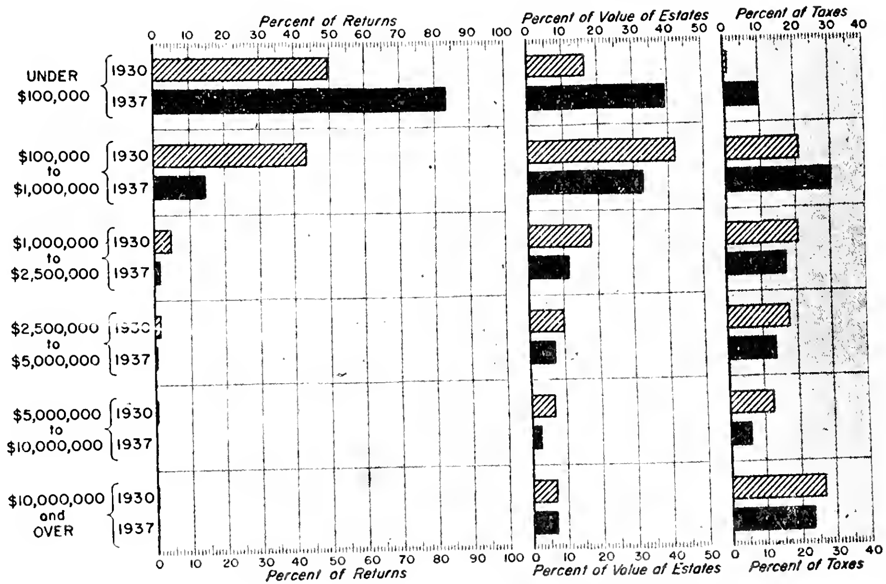

ESTATE TAX RETURNS, VALUE OF ESTATES, AND NET TAXES
UNITED STATES, 1930-1937
NUMBER OF RETURNS
THOUSANDS
0
3
6
9
12
1930
1931
1932
1933
1934
1935
1936
1937
AGGREGATE VALUE OF ESTATES
DOLLARS (BILLIONS)
0
1
2
3
4
TOTAL AMOUNT OF TAXES
DOLLARS (MILLIONS)
0
100
200
300
400
SOURCE United States Treasury Department, STATISTICS OF INCOME, 1929-1936

CHART 19

ESTATES TAXES IN THE UNITED STATES
1930 CONTRASTED WITH 1937



SOURCE United States Treasury Department, STATISTICS OF INCOME, 1929–1936

The largest number of all probated estates has always been in the bracket under $100,000. The proportion of such estates, however, has risen from 49.7 percent in 1930 to 83.5 percent in 1937, while during the same period the total sum involved in such estates has grown from $630,000,000 to over $1,000,000,000. In 1930 the value of estates under $100,000 was 16.5 percent of the value of all estates; in 1937 it was 39.4 percent. Tax collections from such estates, because of the mildness of the tax provisions, were only $474,000 in 1930, or only 1.2 percent of the total estate-tax collections that year. By 1937 the amount collected from these estates was $29,500,000, or 9.6 percent of the total.

The bulk of all wealth in probated estates is found in the immense fortunes of a million dollars or more. In 1930 they were only 6.8 percent of all returns, but formed 42.1 percent of the value of all gross estates and 78 percent of all tax collections. By 1937 these large estates constituted only 1.9 percent of all returns, but contained 28 percent of all gross estates and accounted for 59.1 percent of all estate taxes collected.

Table 39, charts 20 and 21, record estate taxes as a percentage of gross estates for the years 1930–37. The increased burden of estates taxation is clearly shown in the rise from 1.02 percent in 1930 to 11.9 percent in 1937. Even this greatly increased levy leaves with the legatees almost 90 percent of the fortunes accumulated.

TABLE 39.—*Net Federal estate taxes as percentage of gross estates, by size of net estates, 1930–37*

Year of filing	Under $100,000	$100,000 to $1,000,000	$1,000,000 to $2,500,000	$2,500,000 to $5,000,000	$5,000,000 to $10,000,000	$10,000,000 and over	Total
1930	0.08	0.51	1.18	1.82	1.95	3.95	1.02
1931	.07	.45	1.30	1.69	1.96	3.75	1.20
1932	.08	.48	1.10	1.87	1.76	4.79	.91
1933	1.03	3.25	6.77	10.14	8.50	----------	3.39
1934	2.09	4.94	7.34	10.89	11.36	21.63	5.67
1935	1.46	7.39	14.66	19.94	25.12	----------	7.33
1936	2.13	8.85	13.76	19.50	29.39	30.39	9.47
1937	2.93	11.08	17.77	22.86	27.73	41.19	11.95

Source: Statistics of Income for year next preceding calendar year in which returns were filed. Computed from tables in following volumes: 1929, table 1, pp. 46–51; 1930, table 1, pp. 54–59; 1931, table 1, pp. 50–53; 1932, table 1, pp. 52–55; 1933, table 1, pp. 52–55; 1934, Part 1, tables 3 and 5, pp. 42–43 and 46–47; 1935, tables 3 4, 6, and 7, pp. 51–55, 58–61; 1936, Part 1, table 2, pp. 51, 52; and table 3, pp. 61–63.

The various estates classes fared differently. In 1930 only 0.08 percent of gross estates under $100,000 was taken in taxes, while in 1937 almost 3 percent was so taken.

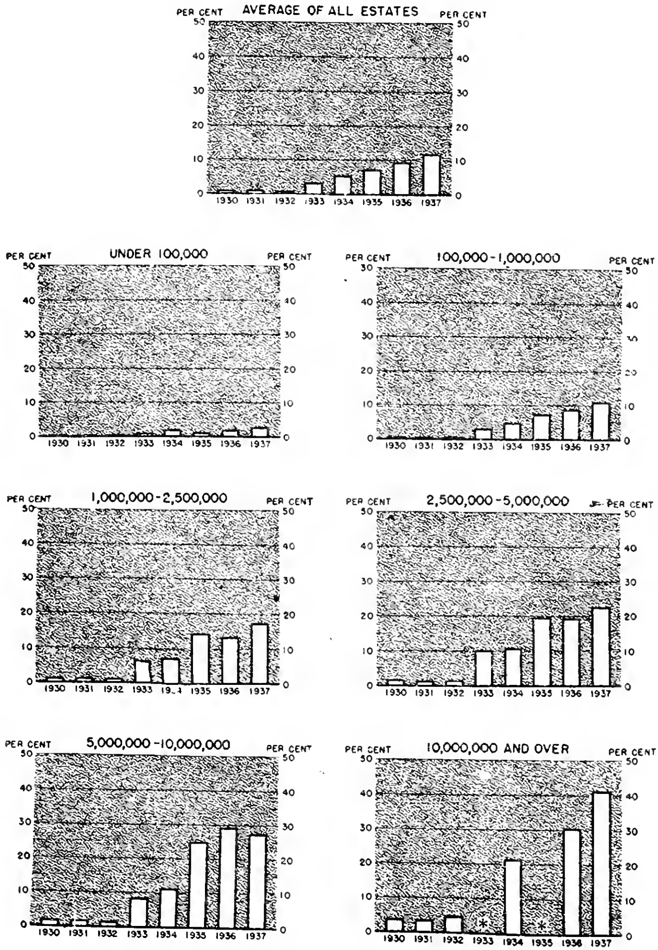
The estates tax in 1930 was almost insignificant, as a method either of raising revenue or of halting the accumulation and concentration of hereditary fortunes. Even the largest estates, totaling $10,000,000 or more, were reduced only 4 percent by the Federal estates levy. After 1930 the statutes were revised to obtain more revenue and to temper the concentration of wealth. By 1937 the tax impact on larger fortunes was the heaviest in our history. Yet the accumulation of wealth in large fortunes was not halted. Net estates between $1,000,000 and $2,500,000 paid 17.8 percent of their total gross in Federal taxes, leaving over 80 percent of these immense fortunes with their legatees.

CHART 20

NET FEDERAL ESTATE TAXES AS PERCENTAGE OF GROSS ESTATES

BY SIZES OF ESTATES

1930-1937



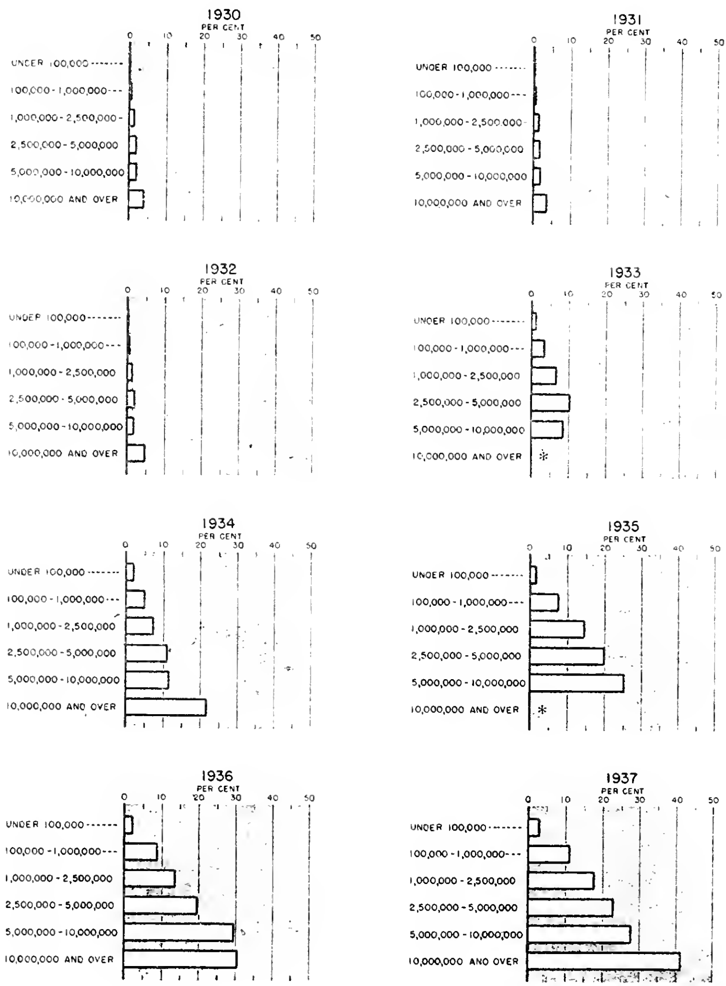
SOURCE: United States Treasury Department, STATISTICS OF INCOME, 1929-1936.
* No cases

Chart 21

NET FEDERAL ESTATE TAXES AS PERCENTAGE OF GROSS ESTATES

BY SIZES OF ESTATES

1930-1937



SOURCE: United States Treasury Department, STATISTICS OF INCOME, 1929-1936

* No cases

This table provides a fair indication of the effect of the estates tax. It does not support the fear that the heavier tax rates break up estates, vitiate the incentive to accumulate wealth, or destroy the effectiveness of great capital aggregates. The owner's power to dispose of his estate without any regard to its effect on the economy has always been a far greater potential force for destruction than the tax system, even under the rates imposed in 1937.

Gift taxes

The Federal Government levies a tax on gifts of more than $5,000 made to any one donee in any calendar year. The tax is collected from the donor, who is allowed an exemption of the first $40,000 of gifts. Above that figure, the gift tax is levied at the following progressive rates (the Defense Tax Act of 1940 levies an additional tax of 10 percent of the amount figured on these rates):[17]

A Amount of net gifts equaling—	B Amount of net gifts not exceeding—	Tax on amount in column A	Rate of tax on excess over amount in column A
			Percent
---------	$10,000	---------	1½
$10,000	20,000	$150	3
20,000	30,000	450	4½
30,000	40,000	900	6
40,000	50,000	1,500	7½
50,000	70,000	2,250	9
70,000	100,000	4,050	10½
100,000	200,000	7,200	12¾
200,000	400,000	19,950	15
400,000	600,000	49,950	17¼
600,000	800,000	84,450	19½
800,000	1,000,000	123,450	21¾
1,000,000	1,500,000	166,950	24
1,500,000	2,000,000	286,950	26¼
2,000,000	2,500,000	418,200	28½
2,500,000	3,000,000	560,700	30¾
3,000,000	3,500,000	714,450	33
3,500,000	4,000,000	879,450	35¼
4,000,000	4,500,000	1,055,700	37½
4,500,000	5,000,000	1,243,200	39¾
5,000,000	6,000,000	1,441,950	42
6,000,000	7,000,000	1,861,950	44¼
7,000,000	8,000,000	2,304,450	45¾
8,000,000	9,000,000	2,761,950	47¼
9,000,000	10,000,000	3,234,450	48¾
10,000,000	20,000,000	3,721,950	50¼
20,000,000	50,000,000	8,746,950	51¾
50,000,000	---------	24,271,950	52½

Gifts made prior to 1936 are taxed at the rates in effect at the time the gifts were made. The law provides for a spreading of the tax, so that returns on the Gift Tax Act of 1935, for example, are not finally due until March 1937. In 1933 the gift tax yielded $4,858,000, reached a peak of $163,027,000 in 1936, and dropped off to $35,000,000 in 1938. Gifts to charitable, educational, or public institutions which are not intended to accrue to the benefit of any private individual or to create propaganda are exempt from the tax.

[17] 53 Stat., 145, 146, 1939.

Federal taxes on corporations

In tables 40 and 41, charts 22 and 23, the impact of various Federal taxes on corporate businesses is shown. Such taxes form a substantial part of the revenue system and contribute a major share of all Federal tax collections.

TABLE 40.—*Corporate income, unjust enrichment, excess profits, and capital stock tax collections, 1930–38*

[Dollar figures in thousands]

Source	1930	1931	1932	1933	1934
Corporate incomes	$1,242,596	$800,809	$464,191	$345,174	$469,028
Percent of total	100.0	100.0	100.0	81.3	82.9
Percent increase		−35.6	−42.0	−25.6	35.9
Unjust enrichment					
Percent of total					
Percent increase					
Excess profits				$66	$5,407
Percent of total					1.0
Percent increase					8,092.4
Capital stock				$79,340	$91,088
Percent of total				18.7	16.1
Percent increase					14.8
Total	$1,242,596	$800,809	$464,191	$424,580	$565,523
Percent of total	100.0	100.0	100.0	100.0	100.0
Percent increase		−35.6	−42.0	−8.5	33.2

Source	1935	1936	1937	1938	1938 over 1930[1]
Corporate incomes	$655,314	$811,720	$1,265,984	$1,324,293	$81,697
Percent of total	86.6	83.4	88.0	88.1	
Percent increase	39.7	23.9	56.0	4.6	6.6
Unjust enrichment		$515	$7,887	$7,372	$6,857
Percent of total		0.1	0.5	0.5	
Percent increase			1,431.5	−6.5	1,331.5
Excess profits	$7,212	$23,313	$24,661	$44,446	$44,380
Percent of total	1.0	2.4	1.7	3.0	
Percent increase	33.4	223.3	5.8	80.2	67,242.4
Capital stock	$93,887	$137,069	$140,691	$127,467	$48,127
Percent of total	12.4	14.1	9.8	8.4	
Percent increase	3.1	46.0	2.6	−9.4	60.7
Total	$756,413	$972,617	$1,439,223	$1,503,578	$260,982
Percent of total	100.0	100.0	100.0	100.0	
Percent increase	33.8	28.6	48.0	4.5	21.0

[1] Or first year thereafter in which the tax was effective.

Source: Data taken from U. S. Treasury Department, Comparative Statement of Internal Revenue Collections by Tax Sources, 1930–38.

TABLE 41.—*Distribution of corporate income-tax returns*[1] *net incomes reported, taxes assessed, and percentage change, 1929–36*

[Dollar figures in thousands]

	Net income classes																
	Under $1,000	$1,000 to $2,000	$2,000 to $3,000	$3,000 to $4,000	$4,000 to $5,000	$5,000 to $10,000	$10,000 to $15,000	$15,000 to $20,000	$20,000 to $25,000	$25,000 to $50,000	$50,000 to $100,000	$100,000 to $250,000	$250,000 to $500,000	$500,000 to $1,000,000	$1,000,000 to $5,000,000	$5,000,000 and over	Total
1929:																	
Returns	69.456	41,292	37,675	19,458	11,795	29,627	13,399	8.424	6,641	12,397	8,316	5,974	2,283	1,344	1,049	300	269.430
Percent of all	25.8	15.3	14.0	7.2	4.4	11.0	5.0	3.1	2.5	4.6	3.1	2.2	0.9	0.5	0.4	0.1	100.0
Net incomes	$29,281	$61,041	$94,818	$66,920	$52,716	$209,764	$164,277	$145,908	$149,630	$441,615	$582,968	$923,944	$796,186	$932,110	$2,116,780	$4,885,929	$11,653,886
Percent of all	0.3	0.5	0.8	0.6	0.5	1.8	1.4	1.3	1.3	3.8	5.0	7.9	6.8	8.0	18.2	41.9	100.0
Tax assessed	$8	$12	$28	$871	$1,669	$11,617	$12,098	$12,059	$13,234	$44,889	$60,948	$98,151	$85,585	$100,591	$227,990	$523,686	$1,193,436
Percent of all	------	------	------	0.1	0.1	1.0	1.0	1.0	1.1	3.8	5.1	8.2	7.2	8.4	19.1	43.9	100.0
1930:																	
Returns	71,322	37,881	32,798	14,732	8,367	19,760	8,955	5,392	3,992	7,372	4,905	3,260	1,259	689	576	160	221,420
Percent of all	32.2	17.1	14.8	6.7	3.8	8.9	4.1	2.4	1.8	3.3	2.2	1.5	0.6	0.3	0.3	0.1	100.0
Net incomes	$29,631	$55,738	$82,605	$50,569	$37,488	$139,687	$109,551	$93,271	$89,664	$262,844	$341,578	$499,648	$438,512	$481,838	$1,177,948	$2,538,241	$6,428,813
Percent of all	0.5	0.9	1.3	0.8	0.6	2.2	1.7	1.5	1.4	4.1	5.3	7.8	6.8	7.5	18.3	39.5	100.0
Percentage increase[2]	−12.5	−8.3	39.3	−21.0	−22.8	−27.2	−26.5	−30.4	−34.7	−34.8	−36.1	−41.4	−40.3	−44.2	−39.0	−42.1	−40.4
Tax assessed	$7	$11	$17	$688	$1,289	$8,457	$8,894	$8,396	$8,645	$29,261	$38,924	$57,554	$51,141	$56,127	$139,141	$303,151	$711,704
Percent of all	------	------	------	0.1	0.2	1.2	1.3	1.2	1.2	4.1	5.5	8.1	7.2	7.9	19.6	42.6	100.0
1931:																	
Returns	70,168	31,702	24,312	9,703	5,481	12,813	5,321	3,301	2,440	4,450	2,755	1,941	729	373	321	88	175,898
Percent of all	39.9	18.0	13.8	5.5	3.1	7.3	3.0	1.9	1.4	2.5	1.6	1.1	0.4	0.2	0.2	0.1	100.0
Net incomes	$27,836	$46,328	$60,782	$33,282	$24,519	$90,198	$65,292	$57,080	$54,847	$157,445	$192,198	$296,252	$252,021	$265,232	$647,197	$1,412,858	$3,683,368
Percent of all	0.8	1.3	1.7	0.9	0.7	2.5	1.8	1.6	1.5	4.3	5.2	8.0	6.8	7.2	17.6	38.4	100.0
Percentage increase[2]	1428.6	1618.2	952.9	−21.1	−33.0	−35.8	−42.0	−40.2	−40.2	−41.9	−44.8	−42.1	−43.2	−46.2	−45.5	−44.1	−43.9
Tax assessed	$107	$189	$179	$543	$864	$5,433	$5,161	$5,019	$5,165	$17,000	$21,470	$33,298	$29,060	$30,206	$75,821	$169,479	$398,994
Percent of all	------	0.1	------	0.1	0.2	1.4	1.3	1.3	1.3	4.3	5.4	8.4	7.3	7.6	19.0	42.5	100.0
1932:																	
Returns	42,070	10,403	5,734	3,321	2,499	6,259	2,962	1,796	1,172	2,700	1,623	1,159	429	235	225	59	82,646
Percent of all	50.9	12.6	6.9	4.0	3.0	7.6	3.6	2.2	1.4	3.3	2.0	1.4	0.5	0.3	0.3	0.1	100.0
Net incomes	$13,121	$14,912	$14,081	$11,506	$11,196	$44,505	$36,271	$31,158	$26,213	$94,913	$113,643	$176,676	$150,686	$165,567	$464,892	$783,775	$2,153,113
Percent of all	0.6	0.7	0.7	0.5	0.5	2.1	1.7	1.4	1.2	4.4	5.3	8.2	7.0	7.7	21.6	36.4	100.0
Percentage increase[2]	1176.6	719.6	742.5	131.7	45.3	−5.4	−16.5	−24.2	−37.5	−30.0	−32.2	−28.8	−30.5	−27.3	−17.6	−36.4	−28.3
Tax assessed	$1,366	$1,549	$1,508	$1,258	$1,255	$5,137	$4,308	$3,806	$3,230	$11,906	$14,555	$23,719	$20,198	$21,970	$62,455	$107,814	$286,034
Percent of all	0.5	0.5	0.5	0.4	0.4	1.8	1.5	1.3	1.1	4.2	5.1	8.3	7.1	7.7	21.8	37.7	100.0
1933:																	
Returns	52,278	13,558	7,481	4,783	3,404	9,143	4,324	2,634	1,836	4,245	2,638	1,958	732	385	318	69	109,786
Percent of all	47.6	12.4	6.8	4.4	3.1	8.3	3.9	2.4	1.7	3.9	2.4	1.8	0.7	0.4	0.3	0.1	100.0
Net incomes	$16,350	$19,559	$18,359	$16,574	$15,239	$65,189	$52,927	$45,569	$41,121	$149,596	$184,378	$302,402	$254,594	$263,853	$636,480	$903,781	$2,985,971
Percent of all	0.6	0.7	0.6	0.6	0.5	2.2	1.8	1.5	1.4	5.0	6.2	10.1	8.5	8.8	21.3	30.3	100.0
Percentage increase[2]	68.7	76.7	72.6	85.4	71.3	79.4	74.6	70.1	80.4	78.4	79.6	81.3	78.6	69.9	44.1	18.9	47.9
Tax assessed	$2,305	$2,737	$2,601	$2,332	$2,148	$9,216	$7,519	$6,471	$5,827	$21,240	$26,135	$42,994	$36,064	$37,324	$89,990	$128,166	$423,069
Percent of all	0.5	0.7	0.6	0.6	0.5	2.2	1.8	1.5	1.4	5.0	6.2	10.2	8.5	8.8	21.3	30.3	100.0

See footnotes at end of table.

TABLE 41.—*Distribution of corporate income-tax returns*[1] *net incomes reported, taxes assessed, and percentage change, 1929–36* Continued

[Dollar figures in thousands]

	Net income classes																
	Under $1,000	$1,000 to $2,000	$2,000 to $3,000	$3,000 to $4,000	$4,000 to $5,000	$5,000 to $10,000	$10,000 to $15,000	$15,000 to $20,000	$20,000 to $25,000	$25,000 to $50,000	$50,000 to $100,000	$100,000 to $250,000	$250,000 to $500,000	$500,000 to $1,000,000	$1,000,000 to $5,000,000	$5,000,000 and over	Total
934:																	
Returns	63, 212	17, 836	10, 245	6, 752	4, 986	13, 191	6, 553	3, 907	2, 697	6, 425	4, 080	2, 946	1, 092	599	483	97	145, 101
Percent of all	43. 6	12. 3	7. 1	4. 7	3. 4	9. 1	4. 5	2. 7	1. 9	4. 4	2. 8	2. 0	0. 8	0. 4	0. 3	0. 1	100. 0
Net incomes	$20, 568	$25, 680	$25, 224	$23, 469	$22, 293	$93, 873	$80, 315	$67, 669	$60, 512	$226, 765	$286, 729	$457, 010	$379, 419	$424, 504	$943, 413	$1, 137, 754	$4, 275, 197
Percent of all	0. 5	0. 6	0. 6	0. 6	0. 5	2. 2	1. 9	1. 6	1. 4	5. 3	6. 7	10. 7	8. 9	9. 9	22. 1	26. 6	100. 0
Percentage increase[2]	24. 5	31. 2	36. 5	41. 9	46. 6	43. 9	51. 1	47. 7	46. 5	50. 7	54. 6	49. 2	46. 9	58. 2	45. 4	22. 8	40. 9
Tax assessed	$2, 870	$3, 590	$3, 550	$3, 309	$3, 150	$13, 265	$11, 360	$9, 560	$8, 534	$31, 999	$40, 399	$64, 165	$52, 977	$59, 065	$130, 881	$157, 337	$596, 011
Percent of all	0. 5	0. 6	0. 6	0. 6	0. 5	2. 2	1. 9	1. 6	1. 4	5. 4	6. 8	10. 8	8. 9	9. 9	22. 0	26. 4	100. 0
1935:																	
Returns	68, 392	19, 971	11, 995	7, 820	5, 715	16, 014	7, 818	4, 653	3, 280	7, 547	4, 840	3, 445	1, 335	696	597	113	164, 231
Percent of all	41. 6	12. 2	7. 3	4. 8	3. 5	9. 7	4. 8	2. 8	2. 0	4. 6	2. 9	2. 1	0. 8	0. 4	0. 4	0. 1	100. 0
Net incomes	$22, 692	$28, 820	$29, 517	$27, 097	$25, 552	$114, 074	$95, 733	$80, 779	$73, 201	$266, 200	$339, 824	$532, 638	$464, 391	$485, 093	$1, 166, 034	$1, 413, 077	$5, 164, 722
Percent of all	0. 4	0. 6	0. 6	0. 5	0. 5	2. 2	1. 9	1. 6	1. 4	5. 2	6. 6	10. 3	9. 0	9. 4	22. 6	27. 4	100. 0
Percentage increase[2]	11. 0	13. 4	17. 8	16. 6	15. 8	23. 1	20. 9	21. 5	22. 6	19. 5	20. 7	19. 2	25. 2	16. 5	25. 3	28. 0	23. 3
Tax assessed	$3, 185	$4, 072	$4, 182	$3, 858	$3, 647	$16, 323	$13, 733	$11, 611	$10, 463	$38, 235	$48, 756	$76, 483	$66, 326	$68, 804	$164, 018	$201, 408	$735, 104
Percent of all	0. 4	0. 6	0. 6	0. 5	0. 5	2. 2	1. 9	1. 6	1. 4	5. 2	6. 6	10. 4	9. 0	9. 4	22. 3	27. 4	100. 0
1936:																	
Returns	74, 728	24, 526	14, 767	10, 320	7, 864	21, 438	10, 939	6, 302	4, 447	10, 959	7, 046	5, 233	2, 107	1, 197	1, 058	230	203, 161
Percent of all	36. 8	12. 1	7. 3	5. 1	3. 9	10. 6	5. 4	3. 1	2. 2	5. 4	3. 5	2. 6	1. 0	0. 6	0. 5	0. 1	100. 0
Net incomes	$26, 107	$35, 946	$36, 666	$36, 164	$35, 554	$153, 967	$135, 344	$110, 144	$100, 175	$388, 413	$498, 682	$813, 120	$738, 865	$835, 894	$2, 145, 833	$3, 387, 367	$9, 478, 241
Percent of all	0. 3	0. 4	0. 4	0. 4	0. 4	1. 6	1. 4	1. 2	1. 1	4. 1	5. 3	8. 6	7. 8	8. 8	22. 6	35. 7	100. 0
Percentage increase[2]	9. 4	11. 0	9. 3	18. 7	24. 7	23. 0	30. 3	26. 6	29. 6	40. 4	48. 0	56. 4	59. 3	71. 1	66. 7	79. 3	62. 1
Tax assessed	$3, 483	$4, 518	$4, 570	$4, 581	$4, 549	$20, 071	$17, 889	$14, 697	$13, 557	$53, 687	$72, 166	$119, 628	$105, 664	$117, 712	$273, 402	$361, 202	$1, 191, 376
Percent of all	0. 3	0. 4	0. 4	0. 4	0. 4	1. 7	1. 5	1. 2	1. 1	4. 5	6. 1	10. 0	8. 9	9. 9	22. 9	30. 3	100. 0

[1] Excludes returns showing no net income.
[2] "Percentage Increase" applies to "Tax Assessed".

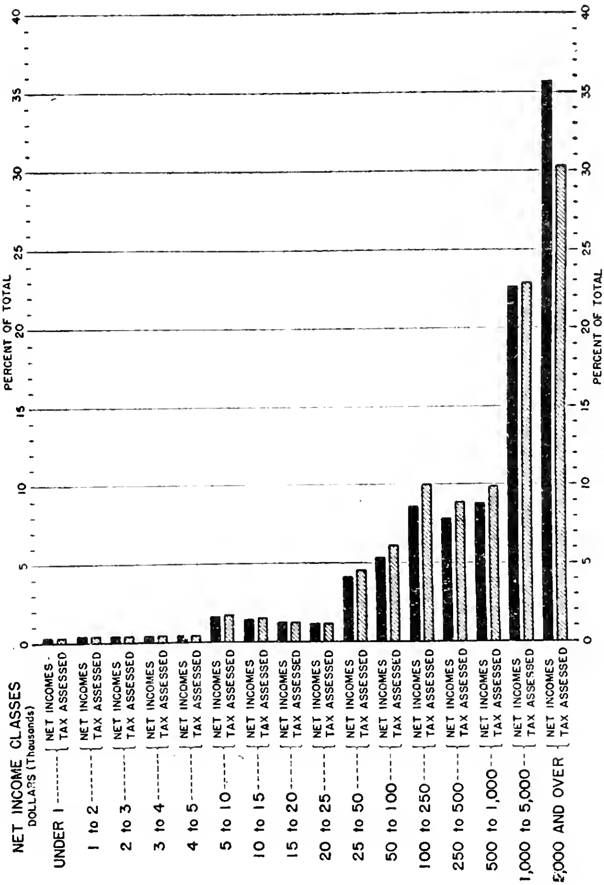
Source: Adapted from U. S. Treasury Department, Statistics of Income for 1929, and annual issues through 1936.

CHART 22

CORPORATE NET INCOMES AND INCOME TAXES ASSESSED

BY INCOME LEVELS

UNITED STATES, 1936

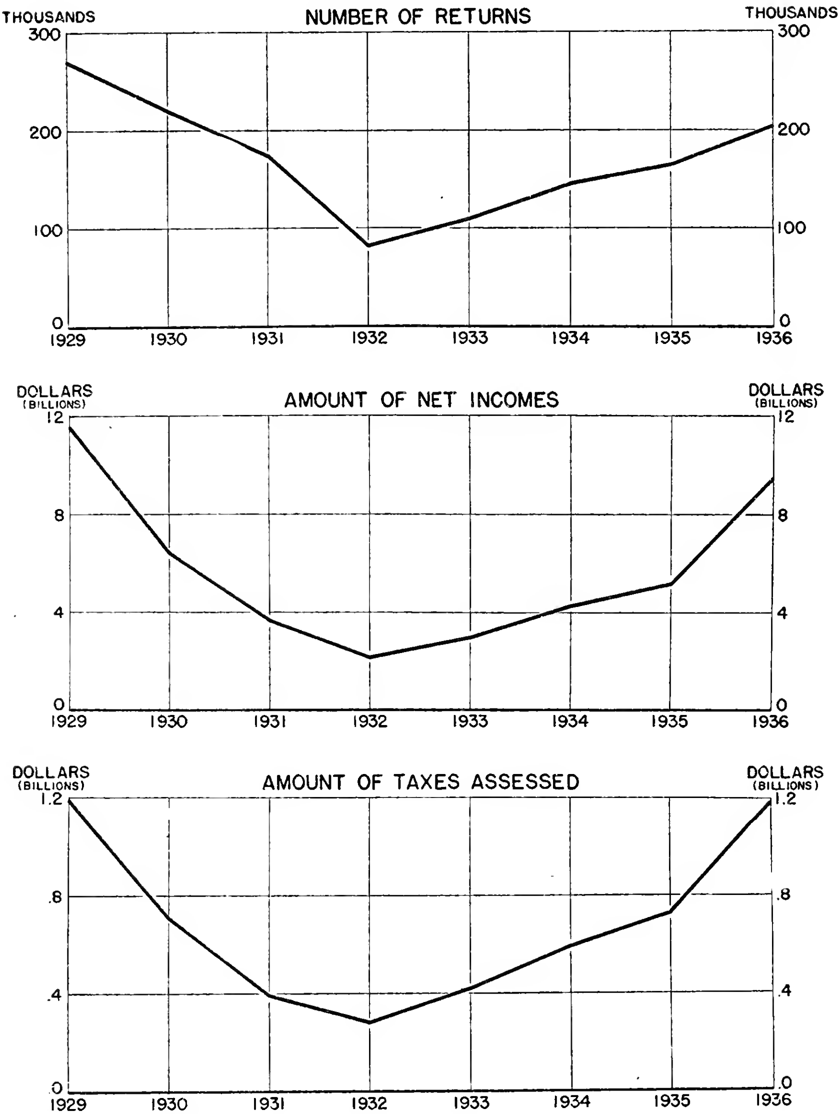


SOURCE: Adapted from U.S. Treasury Department, STATISTICS OF INCOME, 1929-1936

Chart 23

CORPORATE INCOME TAXES

UNITED STATES, 1929-1936



SOURCE: Adopted from U.S. Treasury Department, STATISTICS OF INCOME, 1929-1936.

Corporation income tax.—In the corporation income tax, as in the personal net-income tax, an effort is made to determine net income above the reasonable expenses of doing business, and on this net income the tax is levied. Certain advantages, such as continued existence, limited liability of stockholders, and competitive advantages of size and power are supposed to accrue to corporations as against other forms of business enterprise. Frequently corporations do an interstate business, and take on a national character. These large aggregations of wealth produce a very substantial proportion of all income, as is clearly shown in appendix A of this study.

As the Government's need for revenues has increased, funds have naturally been sought where they were available. Probably no very sound justification of special corporation income taxation as compared with other taxation was ever made, beyond the somewhat vague notion on the part of Congressmen that corporations are none too popular with the voters, that they have invaded fields once regarded as the rightful possession of adventurous independent businessmen, and that they have garnered unto themselves an undue proportion of the wealth of the Nation. For these reasons, and also probably because here is a source of ready revenue which lacks the social-political support to effectively resist taxation, corporation taxes have grown increasingly heavy.

Both corporation income-tax rates and methods of computation have varied from year to year. In another study of this series, these rates and methods are analyzed in detail.[18] The Revenue Act of 1928 set the corporate-income tax rate at 12 percent; the act of 1932 changed it to 13¾ percent with three-fourths percent additional tax on consolidated returns; the act of 1934 left the rates unchanged, adding 2 percent for consolidated returns and a surtax ranging from 30 to 40 percent on undistributed earnings of personal holding companies of corporations; the act of 1936 gave special attention to size, and the tax rates ranged from 8 to 15 percent, with surtaxes from 8 to 48 percent, and a new undistributed-profits surtax of 7 to 27 percent. The 1936 act also taxed 15 percent of the dividends received from other domestic corporations, and allowed a credit up to 5 percent for charitable gifts. The 1937 act raised the rate on personal-holding companies to range from 65 to 75 percent. The 1938 act set the top effective rate of the normal tax at 16½ percent, and lowered the undistributed-profits tax to 2½ percent. The top rate and additional taxes apply only to corporations earning more than $25,000 a year.[19] The Defense Act of 1940 raises the top corporation rate to 19½ percent. The Second Revenue Act of 1940 again raised the rate, with the defense tax, to 24 percent.

The yield from corporation incomes of 1929 was $1,242,596,000, but dropped 35.6 percent in the next year, and continued to decline after that until the low point of 1933, when it was only $345,174,000. Thereafter, revenue from this tax mounted rapidly until in 1938 the total was $1,324,293,000, 6.6 percent above the peak year 1930.

[18] Clifford J. Hynning, Taxation of Corporate Enterprise, Temporary National Economic Committee, Monograph 9, Washington, 1940.
[19] U. S. Treasury Department, Comparative Statement of Internal Revenue Collections by Tax Sources, 1930–38, Washington, 1939.

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In table 42, data are offered on number of corporate returns, income reported, taxes levied, and proportion of income remaining with the corporations taxed for 1936.

TABLE 42.—*Average corporate net income,[1] and income tax paid in 1936 by income groups*

Net income groups	Number of returns	Percent of total	Average net income	Average net tax	Average income after tax	Percent of income remaining
Under $1,000	74,728	36.8	$349	$47	$302	86.5
$1,000 to $2,000	24,526	12.1	1,465	184	1,281	87.4
$2,000 to $3,000	14,767	7.3	2,483	310	2,173	87.5
$3,000 to $4,000	10,320	5.1	3,504	444	3,060	87.3
$4,000 to $5,000	7,864	3.9	4,521	578	3,943	87.2
$5,000 to $10,000	21,438	10.6	7,182	936	6,246	87.0
$10,000 to $15,000	10,939	5.4	12,372	1,635	10,737	86.8
$15,000 to $20,000	6,302	3.1	17,477	2,332	15,145	86.7
$20,000 to $25,000	4,447	2.2	22,526	3,043	19,447	86.5
$25,000 to $50,000	10,959	5.4	35,442	4,899	30,543	86.2
$50,000 to $100,000	7,046	3.5	70,775	10,242	60,533	85.5
$100,000 to $250,000	5,233	2.6	155,383	22,860	132,523	85.3
$250,000 to $500,000	2,107	1.0	350,672	50,149	300,523	85.7
$500,000 to $1,000,000	1,197	.6	698,324	98,339	599,985	85.9
$1,000,000 to $5,000,000	1,058	.5	2,028,198	258,414	1,769,784	87.3
$5,000,000 and over	230	.1	14,727,683	1,570,443	13,157,240	89.3
Total	203,161	100.0	46,654	5,864	40,790	87.4

[1] Excludes corporations showing deficits.

Source: Adapted from U. S. Treasury Department, Statistics of Income for 1936, Part 2, p. 11.

Unjust-enrichment taxes.—When the Agricultural Adjustment Act was declared unconstitutional in 1936, some of the processing taxes collected had not been paid into the Treasury by the processors. Therefore, an unjust enrichment tax was levied to force them to pay into the Treasury 80 percent of the tax which they had added to the price of commodities under the A. A. A. In 1938 revenues from this source totaled $7,372,000.

Excess-profits tax.—Under the National Industrial Recovery Act and the Revenue Act of 1934, excess profits were taxed at the rate of 5 percent of all net income in excess of 12½ percent of the declared value of corporate capital stock. The Revenue Act of 1935, effective on returns filed after June 30, 1936, levied a 6-percent tax on profits in excess of 10 to 15 percent of adjusted declared value; and a 12-percent tax on such profits over 15 percent. The Defense Act of 1940 levies an additional tax of 10 percent of the amount so figured. The excess-profits tax reached its highest yield in 1938, turning over to the Federal Treasury $44,446,000.

A new excess-profits tax was passed in October 1940. It applied to the taxable year beginning December 31, 1939. The text of the bill covered 489 printed pages. It imposed rates on "adjusted excess profits" as follows:

Less than $20,000	25 percent thereof.
$20,000 to $50,000	30 percent thereof.
$50,000 to $100,000	35 percent thereof.
$100,000 to $250,000	40 percent thereof.
$250,000 to $500,000	45 percent thereof.
In excess of $500,000	50 percent thereof.

The term "adjusted excess profits" means the excess profits net income minus a specific exemption of $5,000; excess-profits credits

calculated according to section 712 of the act; and an unused excess-profits credit. The base of the tax may be computed on either of two forms, namely, invested capital or average earnings over a base period net income. Consolidated returns are provided. The complicated nature of the tax defies a brief summary, hence the reader is referred to Public 801 as passed by the Seventy-sixth Congress, third session, October 1940.

The Vinson Act, passed in 1934, levies a 100-percent tax on all profit from Navy contracts in excess of 10 percent of the total contract price.[20] The Vinson Act was rescinded by the Revenue Act of 1940.

Capital-stock tax.—A tax is levied by the Federal Government on the amount of stock declared by a corporation, at an annual rate of $1.10 per thousand shares of declared stock (the rate up to July 1, 1940, was $1). Here is a tax on wealth, easily calculated, and levied directly on corporations, so that it is easily included in the costs of business. The tax reached a peak yield of $140,691,000 in 1937, and fell off to $127,467,000 in 1938.

Federal stamp taxes

Table 43, chart 24, lists the various stamp taxes which the Federal Government levies on the privilege of doing business, or for regulatory purposes. In 1930 these stamp taxes produced $56,383,000 in revenue, but the yield fell off during the depression to less than $35,000,000 in 1931. After 1932, changed rates and new taxes increased yearly revenue, although the unsettled condition of the capital market made the yield erratic. By 1938 the total yield of stamp taxes was $37,934,000. Among these taxes the bonds and stock issues tax was most important, contributing 50.2 percent of all stamp-tax revenues; stock-transfers tax was second with 46.0 percent; produce futures next with 3.5 percent; and silver bullion last with 1.3 percent.

TABLE 43.—*Federal stamp taxes, 1930–38*

[Dollar figures in thousands]

Source	1930	1931	1932	1933	1934	1935	1936	1937	1938	1938 over 1930 [1]
Bonds, stock issues, conveyances	$20,037	$10,964	$12,472	$15,318	$17,031	$23,329	$28,579	$25,573	$19,033	−$1,004
Percent of total	35.5	31.8	31.4	24.3	39.3	45.2	44.1	43.5	50.2	
Percent increase		−46.6	13.8	22.8	11.2	37.0	22.5	−10.5	−25.6	−5.0
Stock transfers	$33,828	$22,384	$24,810	$40,249	$20,768	$24,135	$31,974	$27,699	$17,432	−$16,396
Percent of total	60.0	64.9	62.4	63.8	47.8	46.7	49.4	47.0	46.0	
Percent increase		−33.8	10.8	62.2	−48.4	16.2	32.5	−13.4	−37.1	−48.5
Produce futures	$2,518	$1,110	$2,460	$7,479	$4,950	$3,277	$3,359	$5,445	$1,344	−$1,174
Percent of total	4.5	3.2	6.2	11.9	11.4	6.4	5.2	9.2	3.5	
Percent increase		−55.9	121.6	204.0	−33.8	−33.8	2.2	62.5	−75.3	−46.6
Silver bullion					$658	$876	$859	$172	$125	−$533
Percent of total					1.5	1.7	1.3	0.3	0.3	
Percent increase						33.1	−1.9	−80.0	−27.3	−81.0
Total	$56,383	$34,458	$39,742	$63,046	$43,407	$51,617	$64,762	$58,889	$37,934	−$18,449
Percent of total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Percent increase		−38.9	15.3	58.6	−31.2	18.9	25.5	−9.1	−35.6	−32.7

[1] Or first year thereafter in which tax was effective.

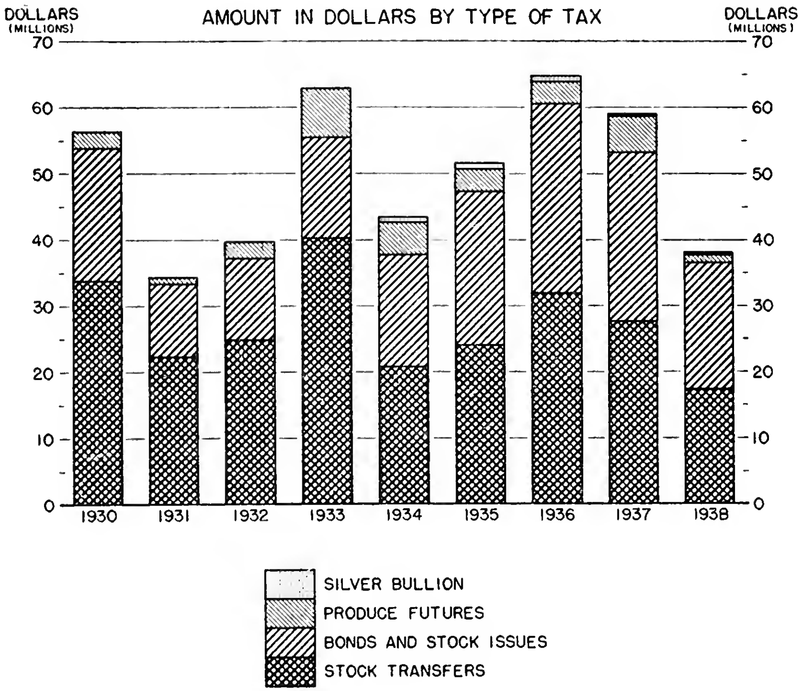
Source: Data taken from U. S. Treasury Department, Comparative Statement of Internal Revenue Collections by Tax Sources, 1930–38.

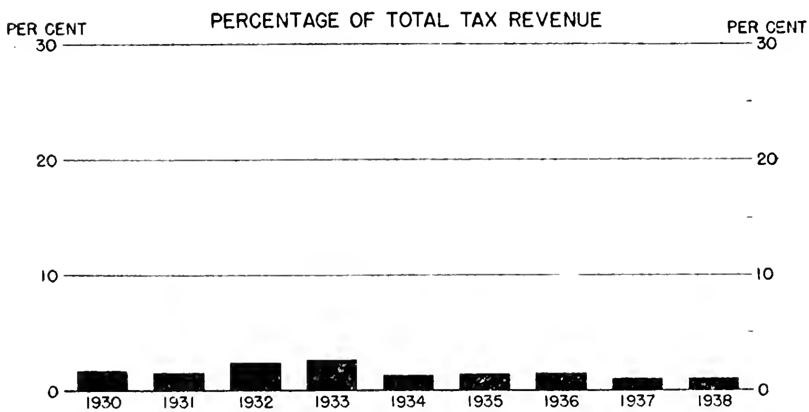
[20] U. S. Treasury, Comparative Statement of Internal Revenue Collections by Tax Sources, 1939.

Chart 24

FEDERAL STAMP TAXES

UNITED STATES, 1930-1938





SOURCE: Data taken from U.S. Treasury Department, COMPARATIVE STATEMENT OF INTERNAL REVENUE COLLECTIONS BY TAX SOURCES, 1930-1938.

Bonds and stock issues tax.—Documentary stamps are required on issues of bonds and stocks. In the Defense Act of 1940, the tax on issues of stocks and bonds was raised from 10 to 11 cents per $100; the 4 cents per $100 tax on the transfer of bonds was raised to 5 cents; and the tax on deeds of conveyances was raised from 50 to 55 cents per $500. The rate on passenger tickets, formerly $1 to $5, is now $1.10 to $5.50, and foreign insurance policies pay 4 instead of 3 cents per dollar of premium. These stamp taxes raised more than $20,000,000 in 1930, and only slightly over $19,000,000 in 1938, even though the rates had increased substantially.

Capital stock transfer tax.—This tax is levied on the transfer of ownership of corporate capital stock. In June 1932 the rate was raised from 2 cents to 4 cents per $100, and the Defense Act raised it to 5 cents. In 1930 revenue from this tax totaled $33,828,000, but declined sharply thereafter as a result of stock market inactivity reaching a low point of somewhat less than $21,000,000 in 1934. In spite of an almost doubled rate, the 1938 yield of this was only $17,432,000.

Future deliveries of produce.—Future deliveries of produce are taxed at the rate of 3 cents per $100 of valuation. In 1932 the rate was increased from 1 to 5 cents, but vigorous protest to Congress brought it down in 1934. In 1938 the tax contributed $1,344,000 to the Federal Treasury.

Silver bullion.—A tax of 50 percent of the profits on the sale of silver bullion is imposed in order to restrict the outside sale of silver. It collected $125,000 in 1938.

REGRESSIVE TAXES

In table 44, chart 25, data are offered concerning Federal taxes which are "regressive" in their effects. The relative importance of the individual items in 1938 in terms of yield is as follows:

	Percent
Taxes for economic adjustment conservation and social security	28. 50
Tobacco taxes	24. 30
Liquor taxes	24. 30
Automobile tires, gasoline, and oil	11. 60
Consumers' necessities	7. 50
Consumers' luxuries	2. 00
Automobiles, parts, and accessories	1. 80
Prohibitive taxes	
Total	100. 00

Of the 56 "regressive" taxes, a few stand out as heavy revenue producers. The tobacco and liquor taxes each contributed nearly 18 percent of total revenues, social-security reserves nearly 21 percent, and automobile tires, gasoline, and oil 8.5 percent, or a total of more than 65 percent for these four groups alone.

The data summarized in table 43 are analyzed in more detail in the specific discussions which follow.

TABLE 44.—*Regressive sources of Federal tax revenue, 1930–38*

[Dollar figures in thousands]

Source	1930	1931	1932	1933	1934
Tobacco taxes	$446, 156	$424, 533	$387, 271	$409, 309	$452, 366
Percent of total	92. 4	93. 1	68. 4	36. 2	25. 4
Liquor taxes	$11, 645	$10, 637	$8, 069	$138, 509	$374, 815
Percent of total	2. 4	2. 3	1. 4	12. 2	21. 0
Consumers' necessities	$4, 121	$2, 072	$25, 077	$74, 375	$85, 716
Percent of total	0. 9	0. 5	4. 4	6. 6	4. 8
Consumers' luxuries	$20, 465	$18, 143	$58. 141	$100, 771	$95, 391
Percent of total	4. 2	4. 0	10. 3	8. 9	5. 4
Automobiles, parts, and accessories			$6, 842	$29, 966	$42, 681
Percent of total			1. 2	2. 6	2. 4
Automobile tires, gasoline, and oil			$80, 030	$237, 489	$229, 666
Percent of total			14. 2	21. 0	12. 9
Taxes for economic adjustment, conservation, and social security				$140, 563	$500, 308
Percent of total				12. 4	28. 1
Prohibitive taxes	$589	$600	$505	$198	$551
Percent of total	0. 1	0. 1	0. 1		
Total	$482, 976	$455, 985	$565, 935	$1, 131, 480	$1, 781, 494
Percent of total	100. 0	100. 0	100. 0	100. 0	100. 0

Source	1935	1936	1937	1938
Tobacco taxes	$478, 368	$536, 103	$563, 184	$567. 094
Percent of total	27. 8	33. 0	23. 5	24. 3
Liquor taxes	$458, 380	$569, 082	$587, 306	$565, 401
Percent of total	26. 6	35. 1	24. 5	24. 3
Consumers' necessities	$111, 301	$119, 680	$133, 689	$174, 628
Percent of total	6. 5	7. 4	5. 6	7. 5
Consumers' luxuries	$52, 752	$56, 535	$59, 911	$47, 038
Percent of total	3. 1	3. 5	2. 5	2. 0
Automobiles, parts, and accessories	$55, 956	$73, 268	$83, 153	$41, 703
Percent of total	3. 3	4. 5	3. 5	1. 8
Automobile tires, gasoline, and oil	$238, 440	$264, 193	$289, 099	$269, 748
Percent of total	13. 9	16. 2	12. 1	11. 6
Taxes for economic adjustment, conservation, and social security	$325, 326	$4, 078	$680, 706	$665, 029
Percent of total	18. 8	0. 3	28. 3	28. 5
Prohibitive taxes	$586	$576	$608	$602
Percent of total				
Total	$1, 721, 109	$1, 623, 515	$2, 397, 656	$2, 331, 243
Percent of total	100. 0	100. 0	100. 0	100 0

Source: Adapted from U. S. Treasury Department, Comparative Statement of Internal Revenue Collections by Tax Sources, 1930–38.

Federal tobacco taxes

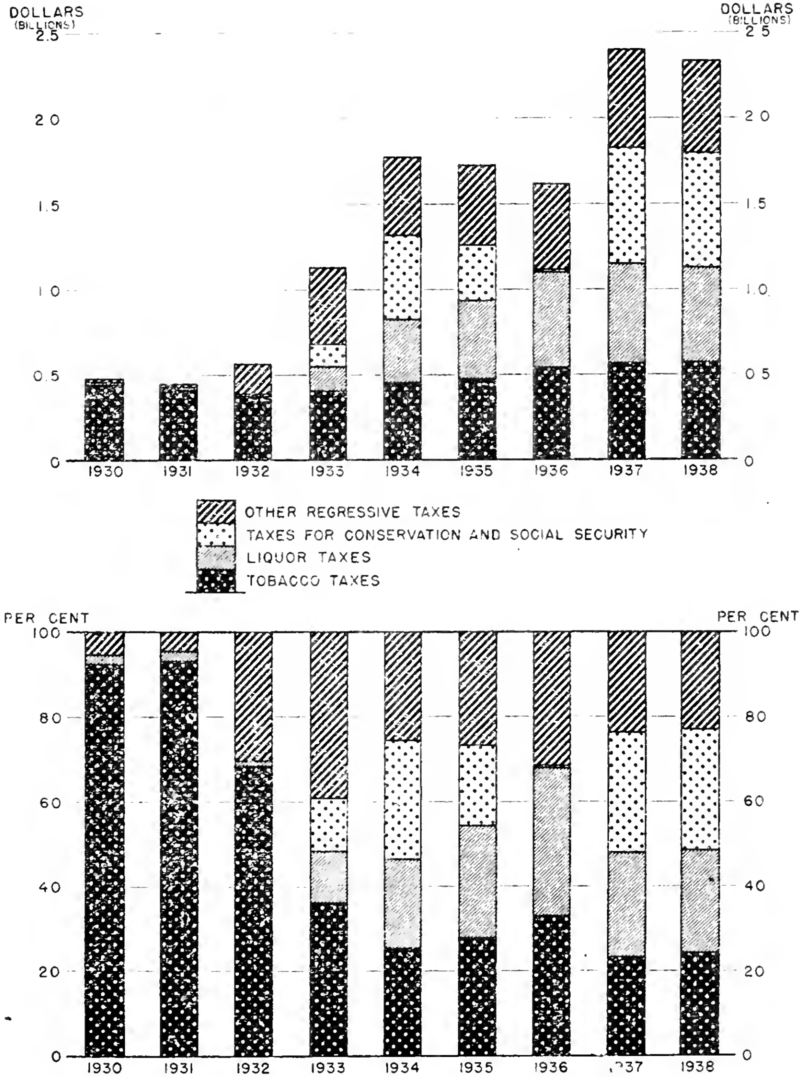
There are still some who advocate the levying of tobacco taxes on the grounds that tobacco is harmful, hence its consumption should be limited by the imposition of taxes which tend to increase its price. Others justify heavy taxes on tobacco because it is an unnecessary commodity, and the taxes imposed are luxury taxes which can be avoided simply by not using tobacco. Both of these arguments are partly responsible for the tobacco tax, but they do not explain the prominent place of tobacco taxes in Federal and State fiscal systems. Tobaccos have not enjoyed a good reputation socially, so that while they have been widely sold, they could be taxed without too serious opposition from businessmen or consumers generally. When governments needed increased revenues, therefore, they naturally turned to this commodity, which offered so little tax resistance.

The development of the cigarette, a cheap and convenient method of using tobacco, combined with the widespread advertising and popularization program, resulted in the almost universal use of tobacco among adults. Thus, instead of a luxury tax, the tobacco tax has

CHART 25

REGRESSIVE FEDERAL TAXES

UNITED STATES, 1936-1939



SOURCE: Adapted from United States Treasury Department, COMPARATIVE STATEMENT OF INTERNAL REVENUE COLLECTIONS BY TAX SOURCES, 1930–1938

become an undisguised consumers' levy, and, because of relatively high rates on a widely used commodity, has risen to a place of great importance as a source of revenue.

Different forms of tobacco are levied on at discriminatory rates. Thus, cigars, which are much more expensive than cigarettes, and used almost exclusively by the upper-income groups, carry a lower rate than cigarettes. It would seem reasonable, if taxation of tobaccos were based on ability to pay, that the reverse condition would be true. Table 45, figure 26, gives essential data on tobacco taxes.

TABLE 45.—*Federal tobacco taxes, 1930–38*

[Dollar figures in thousands]

Source	1930	1931	1932	1933	1934	1935	1936	1937	1938	1938 over 1930
Cigars, large	$19,116	$16,136	$12,351	$11,248	$11,768	$11,868	$12,785	$13,179	$12,573	−$6,543
Percent of total	4.3	3.8	3.2	2.7	2.6	2.5	2.4	2.3	2.2	-------
Percent increase	-------	−15.6	−23.5	−8.9	4.6	0.8	7.7	3.1	−4.6	−34.2
Cigars, small	$287	$253	$211	$156	$166	$134	$134	$149	$116	−$171
Percent of total	0.1	0.1	0.1	-------	-------	-------	-------	-------	-------	-------
Percent increase	-------	−11.9	−16.6	−26.1	6.4	−19.3	.0	11.2	−22.2	−59.6
Cigarettes, large	$54	$40	$25	$21	$635	$19	$18	$22	$20	−$34
Percent of total	-------	-------	-------	-------	0.1	-------	-------	-------	-------	-------
Percent increase	-------	−25.9	−37.5	−16.0	2,923.8	−97.0	−5.3	22.2	−9.1	−63.0
Cigarettes, small	$358,893	$340,357	$310,549	$335,514	$376,844	$403,837	$459,503	$487,882	$491,281	$132,388
Percent of total	80.4	80.2	80.1	82.0	83.3	84.4	85.7	86.6	86.6	-------
Percent increase	-------	−5.2	−8.8	8.0	12.3	7.2	13.8	6.2	.7	36.9
Snuff	$7,446	$7,108	$6,554	$6,539	$6,690	$6,494	$6,858	$6,648	$6,720	−$726
Percent of total	1.7	1.7	1.7	1.6	1.5	1.4	1.3	1.2	1.2	-------
Percent increase	-------	−4.5	−7.8	−0.2	2.3	−2.9	5.6	−3.1	1.1	−9.8
Tobacco, chewing and smoking	$58,958	$59,045	$56,183	$54,919	$55,282	$54,770	$55,730	$54,168	$55,069	−$3,889
Percent of total	13.2	13.8	14.5	13.4	12.2	11.4	10.4	9.6	9.7	-------
Percent increase	-------	.1	−4.9	−2.3	.7	−.9	1.8	−2.8	1.7	−6.6
Cigarette papers and tubes	$1,383	$1,584	$1,389	$910	$977	$1,245	$1,073	$1,133	$1,311	−$72
Percent of total	0.3	0.4	0.4	0.2	0.2	0.3	0.2	0.2	0.2	-------
Percent increase	-------	14.5	-12.3	−34.5	7.4	27.4	−13.8	5.6	15.7	−5.2
Leaf dealer penalties, etc	$18	$10	$9	$3	$5	$2	$2	$3	$3	−$15
Percent of total	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------
Percent increase	-------	−44.4	−10.0	−66.7	66.7	−60.0	0.0	50.0	0.0	−83.3
Total	$446,156	$424,533	$387,271	$409,309	$452,366	$478,368	$536,103	$563,184	$567,094	$120,938
Percent of total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	-------
Percent increase	-------	−5.2	−8.8	5.7	10.5	5.7	12.1	5.1	0.7	27.1

Source: Data taken from U. S. Treasury Department, Comparative Statement of Internal Revenue Collections by Tax Sources, 1930–38.

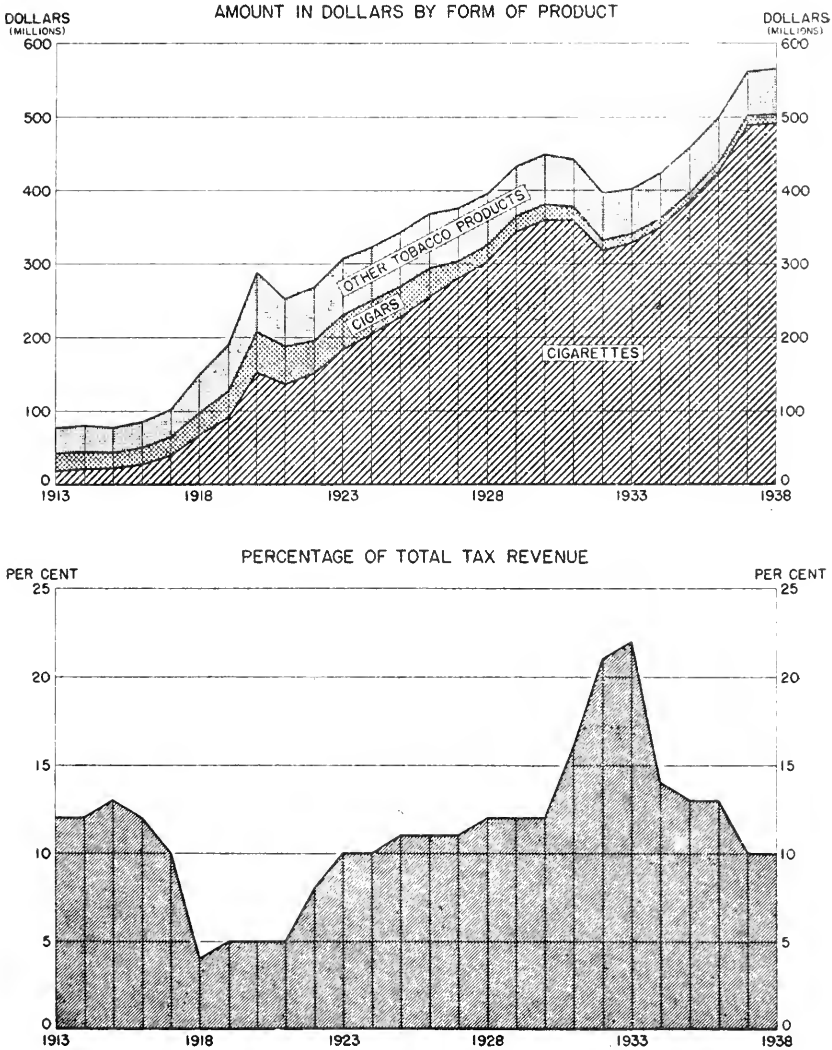
In 1938 the yields of the various taxes imposed on tobaccos, as a percentage of all Federal tobacco taxes, was as follows:

	Percent
Cigarettes	86.6
Smoking, chewing tobacco	9.7
Cigars, large	2.3
Snuff	1.2
Cigarette paper, tubes	.2
Cigars, small	.02
Total	100.0

CHART 26

REVENUE FROM FEDERAL TOBACCO TAXES

UNITED STATES, 1913-1938



SOURCE: FACING THE TAX PROBLEM, Twentieth Century Fund, Inc., New York, 1937, pp 522-3
1938 Figures Furnished by Bureau of Internal Revenue

Cigarette tax.—A Federal tax of $3 per thousand is levied on cigarettes weighing less than 3 pounds to the thousand; cigarettes weighing more are taxed $7.20 per thousand, except that those more than 6½ inches long are levied on at $3, counting 2¾ inches as a cigarette.[21] At $3 per thousand, the ordinary package of 20 carried a 6 cent Federal tax (6½ cents after July 1, 1940) in addition to State taxes imposed in about half the States.

Taxes on cigarettes are collected as excises from manufacturers. This concentrated, monopolistic industry very likely passes the tax on to the consumer, of whom (including all tobacco users) it is estimated there are some 35,000,000 in the United States.[22]

While the consumption of cigarettes is somewhat dependent upon purchasing power, people on relief will go without other needful things to buy them. The yield of the tax has not, therefore, followed precisely the curve of income during the depression. In 1931 the yield was $340,357,000; it fell off 8.8 percent in 1932, but recovered almost that amount in the following year and by 1934 was decidedly above 1931. The peak was in 1938, when the yield was $491,281,000.

Smoking and chewing tobacco taxes.—In addition to any import duties, the Federal Government levies a manufacturers' excise tax of 18 cents a pound on all tobacco prepared for smoking or chewing. Since 1932 the yield has not varied much from the $55,069,000 collected in 1938. The yield of the snuff tax, levied at the same rate, has behaved similarly, reaching $6,720,000 in 1938.

Cigars.—The rate of the cigar tax, a manufacturers' excise, varies with the type of cigar. For a thousand cigars weighing not more than 3 pounds per thousand, the tax is 75 cents. If the weight is more than 3 pounds and the retail price is not more than 5 cents, the tax is $2 a thousand. On cigars selling between 5 and 8 cents apiece, the tax is $3 a thousand; 8 to 15 cents, $5 per thousand; 15 to 20 cents, $10.50 a thousand; and over 20 cents, $13.50 a thousand.

Cigars are sold mostly to men in the better-circumstanced part of the population. They are more costly than cigarettes and have no such popular appeal. At one time more cigars were smoked than cigarettes, and in 1930 they contributed over $19,000,000 to the Federal Treasury. By 1938 the yield had fallen 34 percent, to $12,573,000. In the same period of time, the yield on little cigars, which at one time were expected to offer serious competition to cigarettes, had declined almost 60 percent.

Cigarette papers and tubes.—A manufacturers' excise on cigarette papers not used in the manufacture of cigarettes is levied by the Federal Government, at the rate of one-half cent for 50 papers, or 1 cent for 50 tubes. The peak yield of $1,584,000 occurred in 1931, followed by a drop to $910,000 in 1933 and reaching $1,311,000 in 1938. Papers and tubes are used primarily by smokers with comparatively small incomes, for they make possible a substantial saving over the purchase of "tailor mades."

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21 53 Stat., 219-220, 1939.

22 Harold M. Groves, Financing Government, Henry Holt, New York, 1939, p. 325.

Federal liquor taxes

The National Government has imposed taxes on liquors for many years. During the prohibition era, from 1919 to 1933, yields from these taxes were very small. Since the repeal of prohibition, liquor taxes imposed by Federal and State Governments have contributed an important part of the income of the Nation. Table 46, chart 27, gives the data on their growth. The chart is made from another source [23] and understates the situation shown in the table.

TABLE 46.—*Federal liquor taxes, 1930–38*

[Dollar figures in thousands]

Source	1930	1931	1932	1933	1934	1935	1936	1937	1938	1938 over 1930 [1]
Distilled spirits (imported)	$7	$13	$10	$7	$14,919	$14,446	$29,427	$32,553	$25,164	$25,157
Percent of total	0.1	0.1	0.1	--------	4.0	3.1	5.2	5.5	4.5	--------
Percent increase	--------	85.7	−23.1	−30.0	213,028.6	−3.2	103.7	10.6	−22.7	359,385.7
Distilled spirits (domestic)	$9,913	$9,356	$6,775	$18,161	$121,318	$182,761	$231,483	$236,361	$241,790	$231,877
Percent of total	85.2	88.0	84.1	13.1	32.3	39.8	40.7	40.2	42.7	--------
Percent increase	--------	−5.6	−27.6	168.1	568.0	50.6	26.7	2.1	2.3	2,339.1
Distilled spirits rectification tax	$8	$7	--------	$1,424	$7,341	$6,418	$10,161	$11,294	$10,345	$10,337
Percent of total	0.1	0.1	--------	1.0	2.0	1.4	1.8	1.9	1.8	--------
Percent increase	--------	−12.5	--------	--------	415.5	−12.6	58.3	11.2	−8.4	129,212.5
Bottle, container, export and case tax	$40	$26	$36	$85	$5,269	$7,770	$9,916	$10,312	$9,586	$9,546
Percent of total	0.3	0.2	0.4	0.1	1.4	1.7	1.7	1.8	1.7	--------
Percent increase	--------	−35.0	38.5	136.1	6,098.8	47.5	27.6	4.0	−7.1	23,865.0
Wines, cordials, etc	$211	$225	$173	$1,502	$5,661	$8,130	$7,462	$6,016	$6,004	$5,793
Percent of total	1.8	2.1	2.1	1.1	1.5	1.8	1.3	1.0	1.1	--------
Percent increase	--------	6.6	−23.1	768.2	276.9	43.6	−8.2	−19.4	−0.2	2,745.5
Brandy used for fortifying wines	$50	$79	$56	$86	$390	$1,367	$2,990	$538	$1,167	$1,117
Percent of total	0.4	0.7	0.7	0.1	0.1	0.3	0.5	0.1	0.2	--------
Percent increase	--------	58.0	−29.1	53.6	353.5	250.5	118.7	−82.0	116.9	2,234.0
Fermented malt liquors	--------	--------	--------	$106,541	$200,356	$226,119	$266,089	$278,465	$256,654	$150,113
Percent of total	--------	--------	--------	76.8	53.4	49.3	46.8	47.4	45.4	--------
Percent increase	--------	--------	--------	--------	88.1	12.9	17.7	4.7	−7.8	40.9
Special taxes in connection with liquor occupations	$521	$523	$469	$10,191	$10,696	$11,356	$11,508	$11,131	$10,626	$10,105
Percent of total	4.5	4.9	5.8	7.4	2.9	2.5	2.0	1.9	1.9	--------
Percent increase	--------	0.4	−10.3	2,072.9	5.0	6.2	1.3	−3.3	−4.5	1,939.5
Floor taxes	--------	--------	--------	--------	$8,622	$129	$47	$637	$4,065	−$4,557
Percent of total	--------	--------	--------	--------	2.3	--------	--------	0.1	0.7	--------
Percent increase	--------	--------	--------	--------	--------	−98.5	−63.6	1,255.3	538.1	−52.9
Collections under prohibition laws	$895	$407	$551	$510	$244	(−$115)	--------	--------	--------	--------
Percent of total	7.7	3.8	6.8	0.4	0.1	--------	--------	--------	--------	--------
Percent increase	--------	−54.5	35.4	−7.5	−52.2	−147.1	--------	--------	--------	--------
Totals	$11,645	$10,637	$8,069	$138,509	$374,815	$458,380	$569,082	$587,306	$565,401	$553,756
Percent of total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	--------
Percent increase	--------	−8.7	−24.1	1,616.6	170.6	22.3	24.2	3.2	−3.7	4,755.7

[1] Or first year thereafter in which the tax was effective.

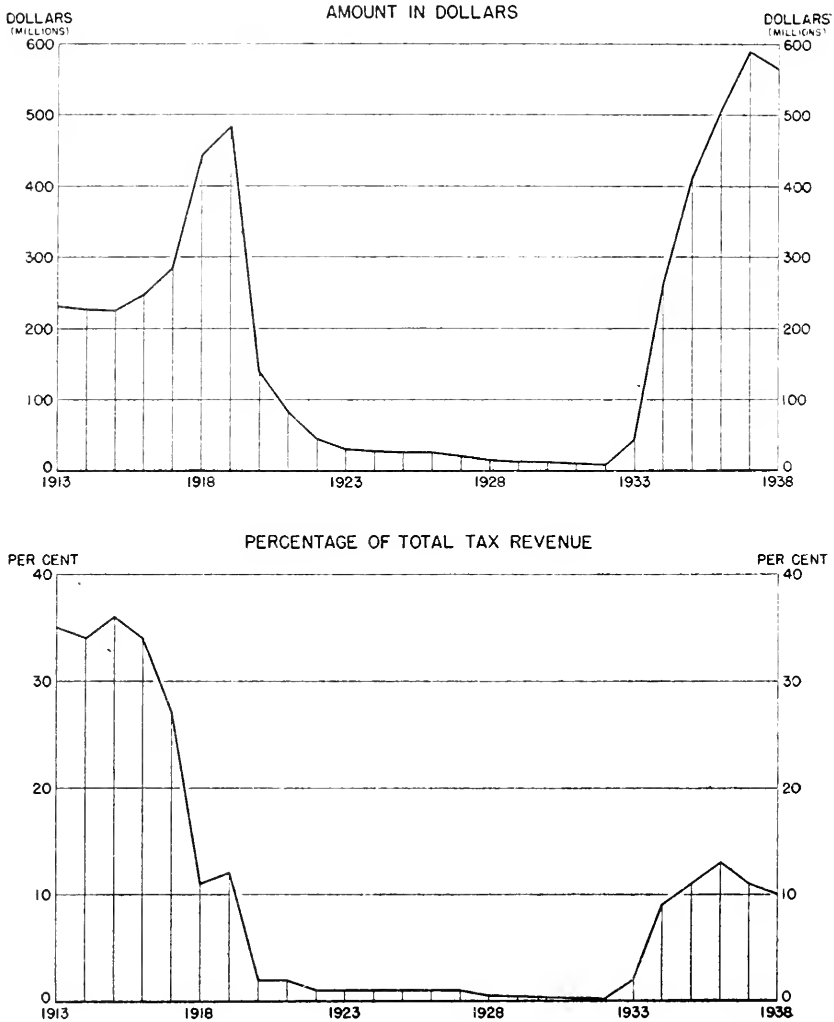
Source: Data taken from U. S. Treasury Department, Comparative Statement of Internal Revenue Collections by Tax Sources, 1930–38.

[23] Facing the Tax Problem, Twentieth Century Fund, New York, 1937, pp. 520–521. The data are offered in the appendix of this volume. The differences in amounts are due to the inclusion of all forms of direct liquor taxes in our table, as well as to the fact that the chart shows fiscal years and the table calendar years.

CHART 27

REVENUE FROM FEDERAL LIQUOR TAXES

UNITED STATES, 1913-1938



SOURCE: FACING THE TAX PROBLEM, Twentieth Century Fund, Inc., New York, 1937, pp 520-521.
1938 Figures Furnished by Bureau of Internal Revenue

Liquor taxes rose rapidly from less than $12,000,000 in 1930 to a peak of $587,306,000 in 1937, dropping off slightly in 1938. The Federal liquor taxes for 1938 ranked, according to proportion of total revenue, as follows:

	Percent
Fermented malt liquors	45.4
Distilled spirits:	
Domestic	42.7
Imported	4.5
Liquor occupations	1.9
Distilled-spirits rectification	1.8
Bottle, container, export and case	1.7
Wines, cordials, etc	1.1
Floor taxes	.7
Brandy used for fortifying wines	.2
Total	100.0

Fermented malt liquors.—From January 1934 to July 1, 1940, these were taxed at the rate of $5 per barrel (31 gallons).[24] At that time the Defense Act of 1940 raised the rate to $6 per barrel.

The tax is levied on manufacturers and is in addition to any State or local taxes levied on fermented malt liquors. This is the largest revenue producer of all Federal liquor taxes, and, as it is placed primarily on beer, adds to the cost of the poor man's drink.

Distilled spirits—domestic.—A Federal manufacturers' excise tax is levied at the rate of $3 per gallon ($2.25 prior to July 1, 1940). Prior to January 1934 the tax was $1.10 per gallon. Next to the malt tax, this is the most lucrative liquor tax and is probably passed on by the manufacturer to the consumer in the price of domestic whisky. Imported distilled spirits are taxed at the same rate, but the amount imported is relatively small.

Liquor occupations taxes.—The Revenue Act of 1918 imposed certain taxes on those engaged in the manufacture and sale of liquor. The various taxes now in force are as follows (all these taxes represent a 10 percent increase over the rates in force prior to July 1, 1940):

Wholesale dealers pay an annual tax of	$110.00
Retail dealers pay an annual tax of	27.50
Brewers pay a yearly tax of $110, except that a brewer of less than 500 barrels a year pays	55.00
Wholesale dealers in malt liquors pay an annual tax of	55.00
Retail dealers in malt liquors pay a yearly tax of	22.00
Rectifiers of distilled liquors pay a special annual tax of	220.00
Rectifiers of less than 500 barrels (40 gallons to the barrel) a year pay	110.00

Manufacturers of stills pay a yearly tax of $55 and $22 for each still or worm manufactured. This does not apply to liquor manufacturers making their own stills.[25]

Occupational taxes on wholesalers, retailers, and manufacturers of liquors are more than regulatory in character. They provide a mechanism for the registration and control of persons engaged in the manufacture and sale of liquor, but they have also yielded about $11,000,000 in taxes annually since 1934.

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[24] U. S. Treasury Department, Comparative Statement of Internal Revenue Collections by Tax Sources, 1930–38.

[25] 53 Stat., 338 (1939), and Revenue Act of 1940.

The tax on the manufacture of stills is an attempt to secure current information on the location and character of liquor-making establishments. The tax is not calculated to yield much revenue and, in fact, is remitted in the case of established liquor concerns as noted above. Here is another instance of the use of taxation strictly for control purposes.

Distilled spirits rectification tax.—The National Government imposes a tax of 30 cents per gallon on the rectifier of distilled spirits. It is an excise, easily calculated, and is probably added to the selling price of rectified spirits. The tax contributed $11,294,000 in 1937, dropping off somewhat in 1938.

Container, export, and case stamps.—All taxed liquor must bear stamps on containers, indicating that other taxes on the goods in the containers have been paid. Thus, the container tax is a control measure. Collected at the rate of 1 cent per bottle, it also yields substantial revenue, however, reaching a peak of $10,313,000 in 1937.

Wines and cordials.—Federal taxes vary with the type and quality of wines as follows:

> Wines containing not more than 14 percent of alcohol by volume are taxed 6 cents a gallon.
>
> Wines containing more than 14 and less than 21 percent of alcohol are taxed 18 cents a gallon.
>
> Wines containing more than 21 and not more than 24 percent of alcohol are taxed 30 cents a gallon.
>
> All wines containing more than 24 percent alcohol are classed, for tax purposes, as distilled spirits.
>
> Sparkling wines and champagnes are taxed 3 cents on each half-pint or fraction thereof.
>
> Artificially carbonated wines are taxed 1½ cents on each half-pint or fraction thereof.
>
> Fortified liqueurs, cordials, etc., are taxed 1½ cents on each half-pint or fraction thereof.[26]

Floor taxes.—Prior to the act of 1934, which levied a $2 per gallon tax on liquor, considerable liquor which had been taxed at the rate of $1.10 a gallon had been shipped out from warehouses to dealers. To equalize these levies, floor taxes of 90 cents a gallon were levied. When the tax on liquor was raised to $2.25 a gallon on July 1, 1938, a floor tax of 25 cents a gallon was imposed. The Defense Act of 1940 imposed a similar tax of 75 cents a gallon.

Brandy used for fortifying wines.—The Federal Government now levies a tax of 10 cents a gallon on brandy used for fortifying wines. This tax yielded $1,167,000 in 1938.

Consumers' necessities taxes

In table 47 data are offered on Federal taxes levied on consumers' necessities. The classification of taxes into those on luxuries and necessities is somewhat arbitrary. Under modern conditions of life, however, the classification used here seems reasonable. The figures on individual amounts and proportions of the total are given, to permit rearrangement according to the judgment of the reader, if the division seems inadequate. Chart 28 gives a comparison between these taxes

[26] 53 Stat., 347 (1939), and Revenue Act of 1940. These taxes represent, generally, a 20 percent increase over the old rates.

and those on consumers' luxuries. By 1938 these taxes on necessities ranked, according to their relative importance in this group, as follows:

	Percent
Sugar	35.4
Electric power	22.2
Coconut oils	15.1
Communications	13.5
Toilet preparations	8.0
Mechanical refrigerators	3.6
Oleomargarine	1.4
Matches	.8
Miscellaneous	
Total	100.0

TABLE 47.—*Federal taxes on consumers' necessities, 1930–38*

[Dollar figures in thousands]

Source	1930	1931	1932	1933	1934	1935	1936	1937	1938	1938 over 1930 [1]
Matches			$672	$6,825	$5,006	$6,653	$6,456	$7,386	$1,432	$760
Percent of total			2.7	9.2	5.8	6.0	5.4	5.5	0.8	
Percent increase				915.6	−26.7	32.9	−3.0	14.4	−80.6	113.1
Toilet preparations			$4,450	$10,874	$11,373	$13,195	$15,266	$17,992	$13,969	$9,518
Percent of total			17.8	14.6	13.3	11.9	12.8	13.5	8.0	
Percent increase				144.3	4.6	16.0	15.7	17.9	−22.4	213.9
Telephone, telegraph, radio, and cable communications			$6,421	$17,649	$19,690	$20,300	$23,031	$24,659	$23,504	$17,083
Percent of total			25.6	23.7	23.0	18.2	19.2	18.4	13.5	
Percent increase				174.9	11.6	3.1	13.5	7.1	−4.7	266.0
Oleomargarine	$3,402	$1,961	$1,412	$1,473	$1,618	$2,275	$2,327	$2,423	$2,371	−$1,030
Percent of total	82.6	94.6	5.6	2.0	1.9	2.0	1.9	1.8	1.4	
Percent increase		−42.4	−28.0	4.4	9.8	40.6	2.3	4.1	−2.1	−30.3
Sugar Act of 1937								$3.989	$61,882	$57,894
Percent of total								3.0	35.4	
Percent increase									1,451.3	1,451.3
Coconut oils					$10,113	$29,124	$28,840	$28,699	$26,383	$16,270
Percent of total					11.8	26.2	24.1	21.5	15.1	
Percent increase						188.0	−1.0	−0.5	−8.1	160.9
Electric power			$11,295	$33,627	$32,220	$33,066	$35,024	$37,252	$38,798	$27,503
Percent of total			45.1	45.2	37.6	29.7	29.3	27.9	22.2	
Percent increase				197.7	−4.2	2.6	5.9	6.4	4.2	243.5
Mechanical refrigeration			$731	$3,911	$5.641	$6,676	$8,720	$11,255	$6,266	$5,535
Percent of total			2.9	5.3	6.6	6.0	7.3	8.4	3.6	
Percent increase				435.0	44.2	18.3	30.6	29.1	−44.3	757.2
Miscellaneous taxes	$719	$112	$95	$17	$55	$12	$17	$35	$22	−$697
Percent of total	17.4	5.4	0.4		0.1					
Percent increase		−84.4	−15.2	−82.1	223.5	−78.2	41.7	105.9	−37.2	−96.9
Total	$4,121	$2,072	$25,077	$74,375	$85,716	$111,301	$119,680	$133,689	$174,628	$170,508
Percent of total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Percent increase		−49.7	1,110.3	196.6	15.2	29.8	7.5	11.7	30.6	4,137.5

[1] Or first year thereafter in which the taxes were effective.

Source: Data taken from U. S. Treasury Department, Comparative Statement of Internal Revenue Collections by Tax Sources, 1930–38.

Sugar tax.—In 1937 Congress placed a poundage tax on sugar of both domestic and foreign manufacture. The rate, which is technically levied according to polariscope readings, amounts to approximately one-half cent a pound.[27] This sugar tax is in addition to the tariff on sugar, which has been a principal source of import revenue almost continuously since 1789. Recent studies of sugar tariffs indi-

[27] 53 *Stat.*, 426 (1939). The rate is 0.465 cent per pound on all sugar testing 92 sugar degrees by the polariscope, and for each additional sugar degree 0.00875 cent per pound additional. The rate is 0.5144 cent per pound on all sugar testing less than 92 sugar degrees. Sugar manufactured for home consumption, or for the use of the employees of the manufacturer, is exempt from the tax. Taxes paid under this act on sugar used for livestock feed or for the manufacture of alcohol are refunded.

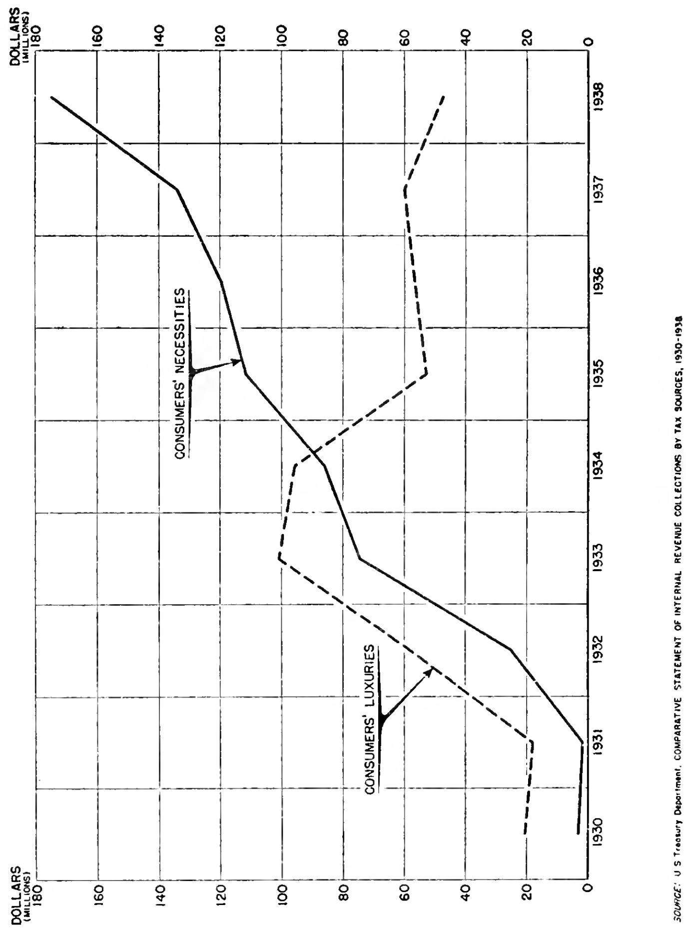
cate that the average American family pays \$10 a year in duties on sugar.[28]

In the first full year of its application, the manufacturers' tax of 1937 collected \$61,882,000 and probably added another \$2 to the already burdensome levy which the average American family pays on sugar. Little justification of the tax can be made, except that since it is levied at a relatively low rate on a widely used and easily distinguished article, it yields substantial revenue.

CHART 28

FEDERAL TAXES ON CONSUMERS' LUXURIES AND NECESSITIES

UNITED STATES, 1930-1938



Electric power.—One of the taxes passed with the other so-called "temporary taxes" in 1931–32 was a 3-percent tax on electric power sold for domestic or commercial consumption. (This rate was raised to 3⅓ percent in the Defense Act of 1940.) The tax is not imposed on Government purchases of electricity, nor does it apply to electric power produced and sold by publicly owned electric utilities.[29] In 1933, the first full year of the application of the tax, it yielded \$33,627,-

[28] Harold M. Groves, Financing Government, Henry Holt, New York, 1939, p. 345. Groves quotes the important studies of Lippert S. Ellis, the Tariff on Sugar, Rawleigh Foundation, Freeport, 1933, and C. R. Whittlesey, Excise Taxes as a Substitute for Tariffs, American Economic Review, vol. 27, December 1937, p. 667.

[29] 53 *Stat.*, 412.

000 in revenue. This is an additional charge on electric power, over and above those State and local gross receipts or property taxes which are allowed in the rate bases, and consequently become part of the charge to consumers for electricity. The tax depends upon the amount of electrical energy used. The tax yield has held fairly constant since 1933 although from 1934 onward the total revenue from this group of taxes has steadily increased. This is a consumption tax on a widely used, almost universally necessary consumers' service.

Coconut oils.—In 1933–34 Congress passed a tax of 3 cents per pound on the first domestic processing of coconut oil, palm oil, palm-kernel oil, fatty acids or salts derived from any of the foregoing oils. The tax does not apply to production in the Philippine Islands, or oils brought into this country prior to 1934.[30] These oils are used in the preparation of foods, soaps, and other articles of consumption.

Such a manufacturers' and processors' tax is easily calculated, and becomes part of the cost of production of the finished goods, passed on in the ultimate price to the consumer. The tax yield has remained fairly constant since 1935, amounting in 1938 to $26,383,000.

Federal charges on telephone and telegraph tolls.—Among the "temporary taxes" passed to obtain revenue during the depression was a levy on telephone and telegraph tolls. First collections were made in 1932. Conversations costing from 50 cents to $1 are taxed 10 cents; from $1 to $2, 15 cents; in excess of $2, 20 cents. The tax is 5 percent of telegraph charges; 10 cents per message transmitted by cable or radio; and 5 percent of the amount paid for a leased wire or talking circuit special service furnished before July 1, 1939, except where such service is used by telephone agencies or common carriers in the conduct of business. Government units and news collecting or broadcasting agencies are exempt from the tax.[31] The tax is not absorbed by the telephone or telegraph companies transmitting messages, but is added to the rate payers' bills.

This direct-service charge is in addition to consumers' levies paid in gross-receipts taxes imposed on the communications business in many States. As it is a tax on business sales, the revenue depends on the volume of communications business. The revenue leveled off after 1936 at about $25,000,000.

Toilet preparations tax.—The Federal Government levies an 11-percent (10 percent to July 1, 1940) tax on sales of toilet preparations by manufacturers, producers, or importers Preparations so taxed are: perfumes, essences, extracts, toilet waters, cosmetics, petroleum jellies, hair oils, pomades, hair dressings, hair restoratives, hair dyes, aromatic cachous, toilet powders, and any other or similar substances known to be used for toilet purposes.[32]

This heavy excise is easily calculated, is identical for all manufacturers, and is probably passed on in the selling price to the consumer.

It is difficult to make any sharp distinction between toilet articles used for personal care and those applied for medicinal purposes. Nor can such preparations be considered as luxuries unnecessary in a day when personal appearance and charm have such widespread acceptance and commercial value. The tax, therefore, is not one which the consumer can avoid easily by not buying the article. The yield

[30] Ibid., p. 264.
[31] Ibid., p. 422.
[32] Ibid., p. 410.

of the tax is dependent upon consumers' purchasing power. Like many other manufacturers' excises, it is subject to some evasion, which partly accounts for the fluctuation in revenues. Fluctuations in national income, however, affect the yield much more directly. Table 47 shows a 22-percent decline from the prosperous year 1937 to the recession of late 1937 and early 1938. Even so, the tax contributed almost $14,000,000 to the Federal Treasury in 1938, and accounted for 8 percent of the total yield from taxes on consumers' necessities.

Tax on mechanical refrigeration.—A 5½-percent manufacturers' excise (5 percent to July 1, 1940) is levied on sales of complete sets and parts used for mechanical refrigeration and cooling systems.[33] Here again, is a tax which in all probability is added to the price paid by the consumer. The tax yield reached a peak of $11,255,000 in 1937, and declined to $6,266,000 in 1938.

Taxes on oleomargarine.—The dairy industry for many years has sponsored taxes on butter substitutes as a protection against invasion of their business province. It is argued that these substitutes are inferior to butter and require strict regulation lest they become injurious to health. Since they are sold at lower prices than butter they are generally consumed by the poorer groups of American citizens.

Federal oleomargarine taxes take the form of manufacturers' and occupational taxes.[34] Manufacturers are required to pay a stamp tax of a quarter of a cent per hundred on uncolored, and 10 cents per pound on colored oleomargarine. The latter tax is so prohibitively high that manufacturers generally offer for sale uncolored margarine and coloring matter, which housewives mix to obtain the appearance of butter.

Manufacturers of oleomargarine pay a special tax of $600 a year. Wholesalers of oleomargarine pay a yearly tax of $480; but those who vend only the oleomargarine on which the quarter of a cent tax has been collected pay a yearly occupational tax of $200. Manufacturers selling at wholesale who have paid this basic oleomargarine tax, and who sell only their own manufactured margarine, are exempt from the wholesalers' tax. Retail dealers who sell various butter substitutes pay a tax of $48 a year; those who sell no butter substitutes except that on which the basic oleomargarine tax has been paid are charged an occupational tax of $6 a year.

The combined yield of the various oleomargarine taxes dropped considerably from 1930 to 1938, largely because the shift in national administration brought about sharp changes in rates. In 1930 the poor who were forced to use butter substitutes paid taxes of $3,401,000. By 1938 that figure had declined more than 30 percent, to $2,371,000.

Match taxes.—Two forms of taxation are levied on matches by the Federal Government. The first is a prohibitive tax of 2 cents per hundred on phosphorous poisonous matches, paid by the manufacturers.[35] Such a tax is, of course, intended to drive these matches from the market, and largely succeeds in doing so. The other match tax, which produces Federal revenue, is imposed on manufacturers at the rate of 5½ cents a thousand (5 cents before July 1, 1940) on all fancy wooden matches and wooden matches with stained, dyed, or colored sticks or stems, sold in boxes or in bulk. In 1937 it yielded

[33] Ibid., p. 412.
[34] Ibid., pp. 248 and 380.
[35] Ibid., pp. 284, 412.

$7,386,000, but changes in the law and in consumption habits combined to reduce the yield to $1,432,000 in 1938.

Consumers' luxuries taxes

Table 48 gives detailed figures on Federal taxes on "luxury" articles and services. The collection is heterogeneous, including such obvious luxuries, as furs, jewelry, cameras, etc., which consumers can either purchase or go without at their own option, and others, like radio sets and phonographs, firearms when used by commercial hunters and trappers, safe-deposit boxes when used for business purposes, etc., which are not so clearly items which the user can do without.

TABLE 48.—*Federal taxes on consumers' luxuries, 1930–38*

[Dollar figures in thousands]

Source	1930	1931	1932	1933	1934	1935	1936	1937	1938	1938 over 1930[1]
Furs			$4,800	$7,706	$4,236	$3,037	$4,802	$6,210	$1,905	−$2,895
Percent of total			8.3	7.6	4.4	5.8	8.5	10.4	4.0	
Percent increase				60.5	−45.0	−28.3	58.1	29.3	−69.3	−60.3
Jewelry			$1,347	$4,005	$3,249	$2,520	$2,240	$394		
Percent of total			2.3	4.0	3.4	4.8	4.0	0.7		
Percent increase				197.3	−18.9	−22.4	−11.1	−82.4		
Cameras and lenses			$76	$263	$345	$457	$775	$1,256	$801	$725
Percent of total			0.1	0.3	0.4	0.9	1.4	2.1	1.7	
Percent increase				244.7	31.0	32.7	69.5	62.1	−36.2	953.9
Firearms, shells, cartridges			$408	$2,051	$2,446	$2,223	$2,931	$3,533	$2,431	$2,023
Percent of total			0.7	2.0	2.6	4.2	5.2	5.8	5.2	
Percent increase				403.1	19.3	−9.1	31.9	20.5	−31.2	496.6
Pistols and revolvers	$146	$126	$53	$44	$59	$55	$81	$110	$65	−$81
Percent of total	0.7	0.7	0.1		0.1	0.1	0.1	0.2	0.1	
Percent increase		−13.4	−57.7	−18.3	35.7	−7.3	48.2	35.7	−41.5	−55.8
Sporting goods			$905	$3,402	$4,103	$4,995	$6,346	$6,627	$4,278	$3,373
Percent of total			1.6	3.4	4.3	9.5	11.2	11.1	9.1	
Percent increase				275.9	20.6	21.8	27.1	4.4	−35.5	372.7
Candy			$1,663	$3,817	$2,258	$61	$51			
Percent of total			2.9	3.8	2.4	0.1	0.1			
Percent increase				129.5	−40.9	−97.3	−17.0			
Chewing gum			$272	$717	$801	$788	$887	$956	$577	$305
Percent of total			0.5	0.7	0.8	1.5	1.6	1.6	1.2	
Percent increase				163.3	11.7	−1.6	12.7	7.7	−39.7	11.8
Soft drinks			$2,246	$4,638	$2,162	$43	$58			
Percent of total			3.9	4.6	2.3	0.1	0.1			
Percent increase				106.5	−53.4	−98.0	34.3			
Brewers' wort, malt, etc			$3,118	$4,999	$1,673	$1,033	$996	$523	$188	−$2,930
Percent of total			5.4	5.0	1.8	2.0	1.8	0.9	0.4	
Percent increase				60.3	−66.5	−38.3	−3.6	−47.5	−64.0	−94.0
Leases on safe deposit boxes			$1,005	$2,694	$2,594	$2,032	$2,036	$2,018	$1,980	$975
Percent of total			1.7	2.7	2.7	3.9	3.6	3.4	4.2	
Percent increase				168.2	−3.7	−21.7	0.2	−0.9	−1.9	97.0
Radio sets, phonograph records, etc			$1,185	$2,597	$3,521	$4,436	$6,515	$6,659	$4,432	$3,247
Percent of total			2.0	2.6	3.6	8.4	11.5	11.1	9.4	
Percent increase				119.2	35.6	26.0	46.9	2.2	−33.4	274.0
Admissions to amusements	$3,545	$2.475	[illegible]	$14,098	$15,243	$16,406	$18,457	$20,974	$19,661	$16,117
Percent of total	17.3	13.6	16.2	14.0	16.0	31.0	32.6	35.0	41.8	
Percent increase		−30.2	279.7	50.0	8.1	7.6	12.5	13.6	−6.3	454.6
Social club dues and initiation fees	$11,985	$10,673	$7,927	$6,017	$5,890	$5,864	$6,131	$6,630	$6,237	−$5,748
Percent of total	58.6	58.9	13.6	6.0	6.2	11.1	10.8	11.0	13.3	
Percent increase		−10.9	−25.3	−24.6	−2.1	−0.5	4.5	8.2	−5.9	−48.0
Checks, dividends and miscellaneous repealed taxes			$19,450	$39,651	$42,274	$4,548	$16	$124	$361	−$19,089
Percent of total			33.4	39.3	44.2	8.5		0.2	0.8	
Percent increase				103.9	6.6	−89.2	−99.7	691.2	191.4	−98.1
Playing cards	$4,789	$4,868	$4,240	$4,072	$4,535	$4,253	$4,213	$3,897	$4,123	−$667
Percent of total	23.4	26.8	7.3	4.0	4.8	8.1	7.5	6.5	8.8	
Percent increase		1.6	−12.9	−4.0	11.4	−6.2	−0.9	−7.5	5.8	−13.9
Total	$20,465	$18,143	$58,141	$100,771	$95,391	$52,752	$56,535	$59,911	$47,038	$26,573
Percent of total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Percent increase		−11.3	220.5	73.3	−5.3	−44.7	7.2	6.0	−21.5	129.8

[1] Or first year thereafter in which the taxes were effective.

Source: Data taken from U. S. Treasury Department, Comparative Statement of Internal Revenue Collections by Tax Sources, 1930–38.

In 1932 a tax on checks and dividends accounted for a third of the yield on this group of taxes. Strictly speaking, much of this tax was in the nature of a service tax on incomes. The tax was repealed, and became insignificant in the yield of luxury and service taxes after 1934. This should be considered in reading and interpreting the data.

The relative importance of the various luxury taxes in 1938 is indicated in the following table:

	Percent
Admission to amusements	41. 8
Social club dues and fees	13. 3
Radio sets, phonograph records, etc	9. 4
Sporting goods	9. 1
Playing cards	8. 8
Firearms, shells, cartridges	5. 2
Rentals of safe deposit boxes	4. 2
Furs	4. 0
Cameras and lenses	1. 7
Chewing gum	1. 2
Brewers' wort, malt, etc	. 4
Pistols and revolvers	. 1
Checks, dividends and miscellaneous repealed taxes	. 8
Total	100. 0

Admission taxes to places of amusement.—Up to July 1, 1940, the amusement tax was 10 percent on all admission charges over 40 cents. The Defense Tax Act lowered this exemption and raised the rate, so that 11 percent is now collected on all admissions of 20 cents or more. The act also continued the provision that the tax should be paid by the purchaser of the ticket. The admission tax is not levied on religious, charitable, or educational entertainments, except athletic contests and games, or on agricultural fairs that do not provide profits for individuals.[36]

The inclusion of most movie admissions under the tax raised the yield from $2,474,000 in 1931 to $9,395,000 in 1932. The yield increased each year after that until it reached $20,974,000 in 1937, dropping off to $19,661,000 in 1938. Collection of the tax has been made easy by simply adding it to the price of admission tickets. However, it is a very high sales tax, and one which bears heavily on the amusement costs of the people.

Social club dues.—The Defense Tax Act raised from 10 to 11 percent the tax on the membership dues of social, athletic, or sporting clubs where the annual active membership is in excess of $25 a year. Initiation fees are taxed at 11 percent if the fee is $10 or over, or if the membership dues of the club are in excess of $25 a year. Local student societies, and organizations operating under the lodge system are exempt.[37]

Such taxes are borne primarily by members of resident social clubs and independent social organizations, usually persons of substantial means. The 1930 collections, which reflected conditions in the prosperous year 1929, yielded the Federal Government slightly less than $12,000,000. The amount declined to $5,890,000 in 1934, and rose to $6,630,000 in 1937, falling off the next year to $6,237,000. Apparently as the result of depression, the yield from this tax in 1938 was only about half the 1930 figure.

[36] Ibid., pp. 189–191.
[37] Ibid., pp. 192–193.

Radio sets and phonograph records.—A Federal tax of 5½ percent (5 percent prior to July 1, 1940) of the sales price of radio sets and phonograph records is levied on manufacturers.[38] Applied first in 1932, the tax reached its peak yield in 1937, when it contributed $6,658,000 to the Treasury, but dropped off 33 percent in 1938.

Sporting goods.—The Defense Act of 1940 raised from 10 to 11 percent the manufacturers' tax levied on athletic gear and sporting goods. The tax yielded $6,627,000 in 1937 at its peak, but fell off 35 percent in 1938.

Playing cards.—A manufacturers' excise tax of 11 cents a pack (10 cents prior to July 1, 1940) is levied on playing cards, providing a fairly steady yield in both good and bad times. In 1938 it totaled $4,122,787, a decline of 14 percent from 1929.

Safe deposit boxes.—Box holders are taxed 11 percent of the rental price which they pay annually for the use of safe deposit boxes.[39] (Up to July 1, 1940, the tax was 10 percent.)

This tax reached its greatest yield in 1933, when it contributed $2,694,000 to the Treasury; then declined to $1,979,000 in 1938.

Firearms, shells, cartridges.—The Defense Act raised the manufacturers' excise tax on firearms, shells, cartridges, pistols, and revolvers from 10 to 11 percent.[40] This is in addition to certain prohibitive or regulatory taxes levied under the National Fire Arms Act, discussed later. The tax on firearms and ammunition yielded $2,431,000 in 1938, a decline of 31 percent from the peak in 1937. The tax on pistols and revolvers yielded $65,534 in 1938, a decline from $110,378 in the previous year.

Furs.—When first levied in 1932 the Federal manufacturers' excise tax on furs was 10 percent, with an exemption of $75 per fur garment. The tax was changed in June 1936 to 3 percent, with no exemptions. Under the old rates and exemptions, the tax on furs yielded its maximum revenue of $7,706,000 in 1933. Under the revised law, a maximum of $6,210,000 was reached in 1937, but the yield dropped 70 percent in the next year. This is an excellent indication of the sensitivity of luxury taxes to changes in the economic circumstances and habits of consumers in average to high income brackets.

Cameras and lenses.—The Federal manufacturers' excise tax on cameras is levied at 10 percent of sales. The peak yield of the tax was $1,255,000 in 1927, from which revenues fell off 36 percent in 1938.

Chewing gum.—A manufacturers' excise tax is levied by the Federal Government at the rate of 2 percent of sales on chewing gum. Here is a tax which falls largely on the masses of the population, for among them are located the gum chewers of the Nation. The yield of the tax reached a peak of $956,000 in 1937, from which it declined 40 percent in 1938.

Brewers' wort, malt, etc.—Federal manufacturers' excises were levied on brewers' wort at 15 cents a gallon, malt at 3 cents a pound, and grape concentrates at 20 cents a gallon. The tax on grape concentrates was repealed in 1936, and taxes on wort and malt were repealed, effective in 1938. These actions account for the erratic movement of the tax yields reported in the table.

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[38] Ibid., p. 411.
[39] Ibid., p. 205.
[40] Ibid., pp. 289, 291, 292.

Checks, dividends, and miscellaneous repealed excise taxes.—The Federal Government passed a whole series of excise taxes on commodities such as candy, jewelry, soft drinks, check cancelation, etc., in an attempt to raise ready cash in the trough of the depression. The tax on candy and soft drinks lapsed in 1936, and on jewelry in 1937.

Federal taxes on automobiles, etc.

In 1932 the Federal Government began to levy manufacturers' excise taxes on motor vehicles and accessories. The tax devised was divided into three parts. Automobile truck chassis, truck bodies, and tractors are taxed 2½ percent of their sales value. Other automobile chassis, bodies, and motorcycles, including the accessories sold with them, are taxed 3½ percent of their sales value. Parts and accessories suitable to or for use on the foregoing, but sold separately, are taxed 2½ percent. (Prior to July 1, 1940, these rates were 2, 3, and 2 percent, respectively.)[41]

The tax on automobiles and motorcycles yielded $64,722,000 in the recovery year 1937, but dropped to slightly below $30,000,000 in 1938. The tax on accessories and parts reached $9,620,000 in 1937, and declined to slightly more than $7,000,000 in 1938. Taxes on automobile trucks and bodies reached a peak of $8,812,000 in 1937, and fell to $5,230,000 in 1938. (See table 49, chart 29.)

TABLE 49.—*Federal taxes on automobiles, parts, and accessories, 1932–38*

Item	1932	1933	1934	1935	1936	1937	1938	1938 over 1932
Automobile truck chassis and bodies	$720,155	$3,046,826	$5,261,207	$6,674,270	$8,044,343	$8,811,651	$5,230,378	$4,510,223
Percentage increase		323.1	72.7	26.9	20.5	9.5	−40.6	626.3
Percent of total	10.5	10.2	12.3	11.9	11.0	10.6	12.5	
Other automobiles and motorcycles	$4,221,263	$22,475,887	$31,533,516	$42,262,453	$56,475,926	$64,721,887	$29,405,044	$25,183,781
Percentage increase		432.4	40.3	34.0	33.6	14.6	−54.6	596.6
Percent of total	61.7	75.0	73.9	75.5	77.1	77.9	70.5	
Automobile parts and accessories	$1,900,111	$4,443,071	$5,886,002	$7,019,009	$8,747,945	$9,619,926	$7,067,611	$5,167,500
Percentage increase		133.8	32.5	19.2	24.6	10.0	−26.5	272.0
Percent of total	27.8	14.8	13.8	12.5	11.9	11.6	16.9	
Totals	$6,841,529	$29,965,784	$42,680,725	$55,955,732	$73,268,214	$83,153,464	$41,703,033	$34,861,504
Percentage increase		338.0	42.4	31.1	30.9	13.5	−49.8	509.6
Percent of total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

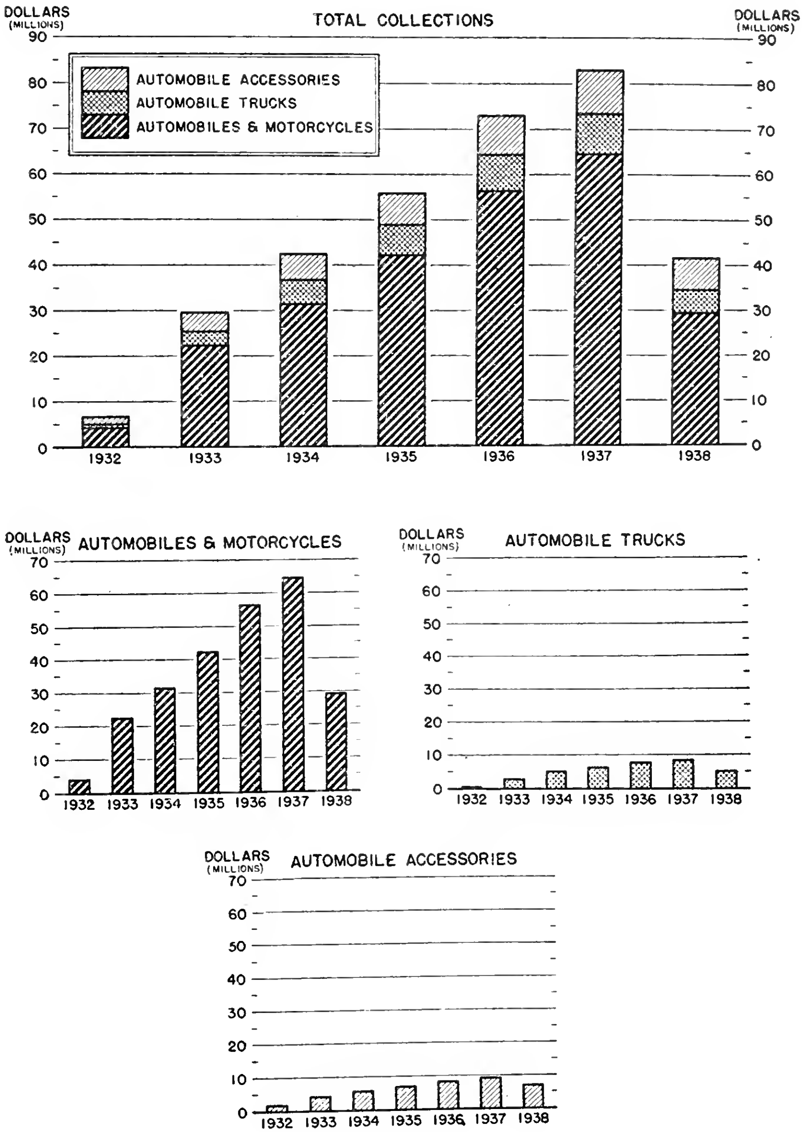
Source: Adapted from U. S. Treasury, Bureau of Internal Revenue, Comparative Statement of Internal Revenue Collections by Tax Sources, 1930–38.

[41] 53 *Stat.*, 410 (1939), and Revenue Act of 1940.

CHART 29

FEDERAL TAXES ON AUTOMOBILES

UNITED STATES, 1932-1938



SOURCE: Adopted from U.S. Treasury, Bureau of Internal Revenue, COMPARATIVE STATEMENT OF INTERNAL REVENUE COLLECTIONS BY TAX SOURCES, 1930-1938.

Federal taxes on automobile tires, gasoline, and oil

The frantic search for revenues in 1932 resulted in the extensive application of taxes bearing on the use of automobiles in the form of levies on automobile tires, gasoline, and motor oils. According to table 50, figure 30, the various taxes in 1938 ranked in their own groups as follows:

	Percent
Gasoline	74.5
Lubricating oils	11.3
Tires	8.2
Transportation of oil by pipeline	4.3
Inner tubes	1.7
Total	100.0

Gasoline.—The Federal Government taxes gasoline at the rate of 1½ cents a gallon (1 cent prior to July 1, 1940).[42] The tax is levied on and collected from producers. The consumption of gasoline is fairly constant, much of it being used in motor vehicles for business purposes. There has been some decline in gasoline consumption during the depression, but this fuel has become indispensable to the ordinary routine of transportation activities. The tax collected by the Federal Government varied from $170,000,000 to $186,000,000 between 1933 and 1936, rose to $203,000,000 during the prosperous year 1937, and dropped back only 1 percent in 1938.

TABLE 50.—*Federal taxes on automobile tires, inner tubes, gasoline, and oil, 1932–38*

Item	1932	1933	1934	1935
Tires	$6,225,329	$19,816,533	$20,003,544	$22,660,695
Percentage increase		218.3	0.9	13.3
Percent of total	7.8	8.3	8.7	9.5
Inner tubes	$1,319,742	$4,019,586	$4,700,534	$5,441,751
Percentage increase		204.6	16.9	15.8
Percent of total	1.6	1.7	2.0	2.3
Gasoline	$62,839,827	$181,125,988	$170,109,269	$172,262,481
Percentage increase		188.2	−6.1	1.3
Percent of total	78.5	76.3	74.1	72.2
Lubricating oils	$7,067,419	$22,289,625	$24,843,489	$28,818,918
Percentage increase		215.4	11.5	16.0
Percent of total	8.8	9.4	10.8	12.1
Transportation of oil by pipe line	$2,577,905	$10,237,275	$10,008,692	$9,256,287
Percentage increase		297.1	−2.21	−7.5
Percent of total	3.2	4.3	4.4	3.9
Total	$80,030,222	$237,489,007	$229,665,528	$238,440,132
Percentage increase		196.7	−3.3	3.8
Percent of total	100.0	100.0	100.0	100.0

Item	1936	1937	1938	1938 over 1932
Tires	$31,837,510	$33,500,198	$22,083,225	$15,857,896
Percentage increase	40.5	5.2	−34.1	254.7
Percent of total	12.1	11.6	8.2	
Inner tubes	$6,404,042	$6,587,806	$4,688,494	$3,368,752
Percentage increase	17.7	2.9	−28.8	255.3
Percent of total	2.4	2.3	1.7	
Gasoline	$186,541,996	$203,025,380	$200,880,797	$138,040,970
Percentage increase	8.3	8.8	−1.1	219.7
Percent of total	70.6	70.2	74.5	
Lubricating oils	$28,985,547	$33,681,590	$30,495,339	$23,427,920
Percentage increase	0.6	16.2	−9.5	331.5
Percent of total	11.0	11.7	11.3	
Transportation of oil by pipe line	$10,423,608	$12,304,203	$11,599,693	$9,021,788
Percentage increase	12.6	18.0	−5.7	350.0
Percent of total	3.9	4.3	4.3	
Total	$264,192,703	$289,099,177	$269,747,548	$189,717,326
Percentage increase	10.8	9.4	−6.7	237.1
Percent of total	100.0	100.0	100.0	100.0

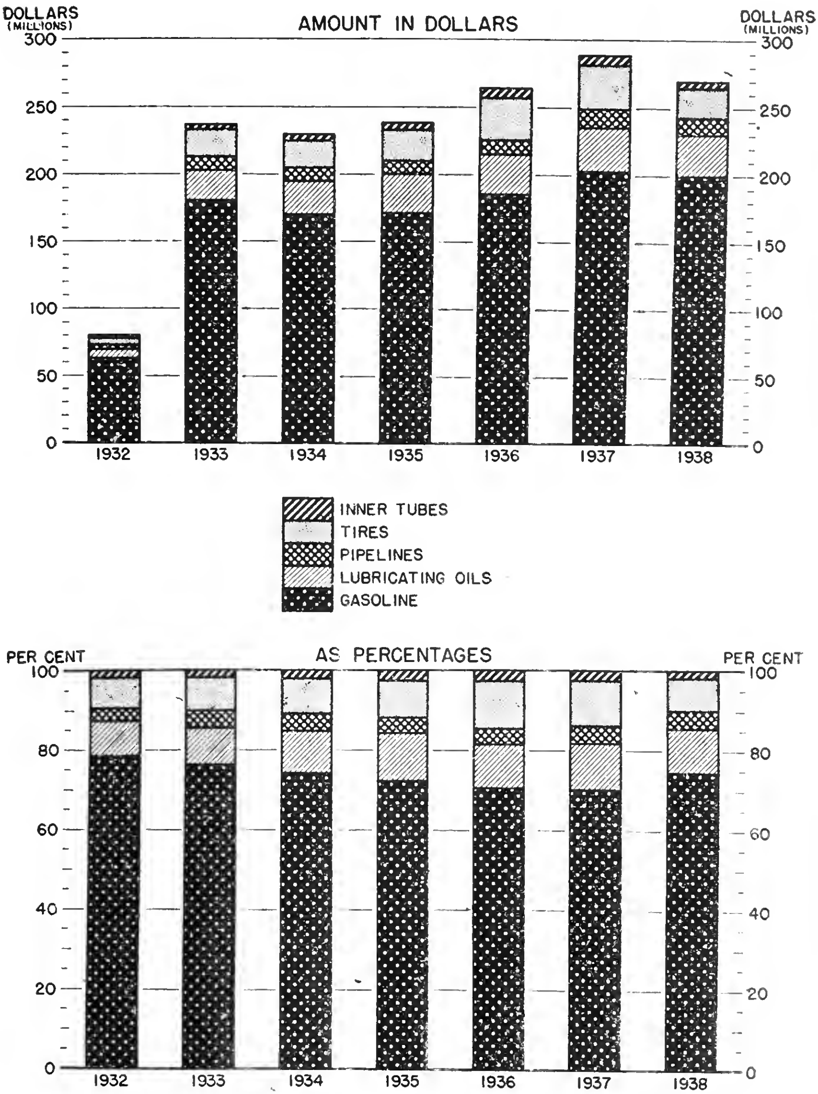
Source: U. S. Treasury Department, Comparative Statement of Internal Revenue Collections by Tax Sources, 1930–38.

[42] Ibid., p. 4..

CHART 30

FEDERAL TAXES ON AUTOMOBILE TIRES GASOLINE AND OIL

UNITED STATES, 1932-1938



SOURCE: U.S. Treasury Department, Bureau of Internal Revenue, COMPARATIVE STATEMENT OF INTERNAL REVENUE COLLECTIONS BY TAX SOURCES, 1930-1938

The gasoline tax has been unusually popular, as it is generally considered to relate closely to the motorists' use of the roads. In many States the proceeds are earmarked for road construction and repair. The relation actually is not close, however. The tax takes no account of relative wear and tear on the highways by different weights of vehicles; it makes no allowance for the use by taxpayers of the particular sections of highways for which the tax money might have been spent; it makes no allowances for the relative use or profit derived from the highway by different types of vehicles; and it in no sense measures the benefits from feeder roads to railroads, whose freight-handling speed has been greatly accelerated by highways built at the expense of motorists.

The increase in gasoline taxes coincided with a declining cost of production of gasoline, hence the price did not rise appreciably, despite the increase in taxes levied. Yet the Federal tax is in addition to State taxes imposed at much heavier rates. Table 51, chart 31, gives data on the impact of State gasoline taxes. In addition, there is a Federal tax of 1½ cents per gallon (1 cent prior to July 1940). The first State tax on gasoline was levied by Oregon in 1919. By 1929 all 48 States had adopted such taxes, and some cities soon found it advantageous to levy gasoline taxes for local purposes. The rates vary from 2 cents a gallon in the District of Columbia to 8 cents in Florida. In certain cities in Alabama the combined gasoline tax levied by city, county, State, and Federal Governments reaches the staggering total of 12 cents a gallon. By 1937 the total State and Federal taxes on gallonage sales of gasoline reached $960,000,000.[43]

TABLE 51.—*State gasoline tax receipts, average tax rate, and consumption in the United States, 1925 and 1930–37*

Year	Rate per gallon[1] (cents)	Total tax receipts (000 omitted)	Gasoline taxed for highway use (1,000 gallons)	Year	Rate per gallon[1] (cents)	Total tax receipts (000 omitted)	Gasoline taxed for highway use (1,000 gallons)
1925	2.26	$146,029	6,457,783	1934	3.66	$565,006	15,454,481
1930	3.35	494,683	14,751,309	1935	3.80	618,802	16,264,961
1931	3.48	537,589	15,407,650	1936	3.85	686,631	17,993,077
1932	3.60	514,139	14,250,173	1937	3.91	767,930	19,218,121
1933	3.65	519,403	14,224,321				

[1] Weighted average.

Source: Harold M. Groves, Financing Government, Henry Holt, New York, 1939, p. 357.

In some States the gasoline tax is used solely for road purposes. In others, and in the Federal Government, it becomes part of the general Government revenues. Although levied on producers, the tax is regarded generally as an unconcealed retail sales tax, and is collected as such from the motorist at the time of purchasing gasoline.

Lubricating oil.—Along with the gasoline tax, the Federal Government imposes a tax of 4½ cents (4 cents prior to July 1, 1940) a gallon on lubricating oil. The tax, collected from manufacturers and producers,[44] is passed on as a retail tax paid by consumers. It is in addition to taxes levied on the same product by States and local governments. In 1938 the tax contributed $30,000,000 to the National Treasury.

[43] Groves, op. cit., p. 353 ff.

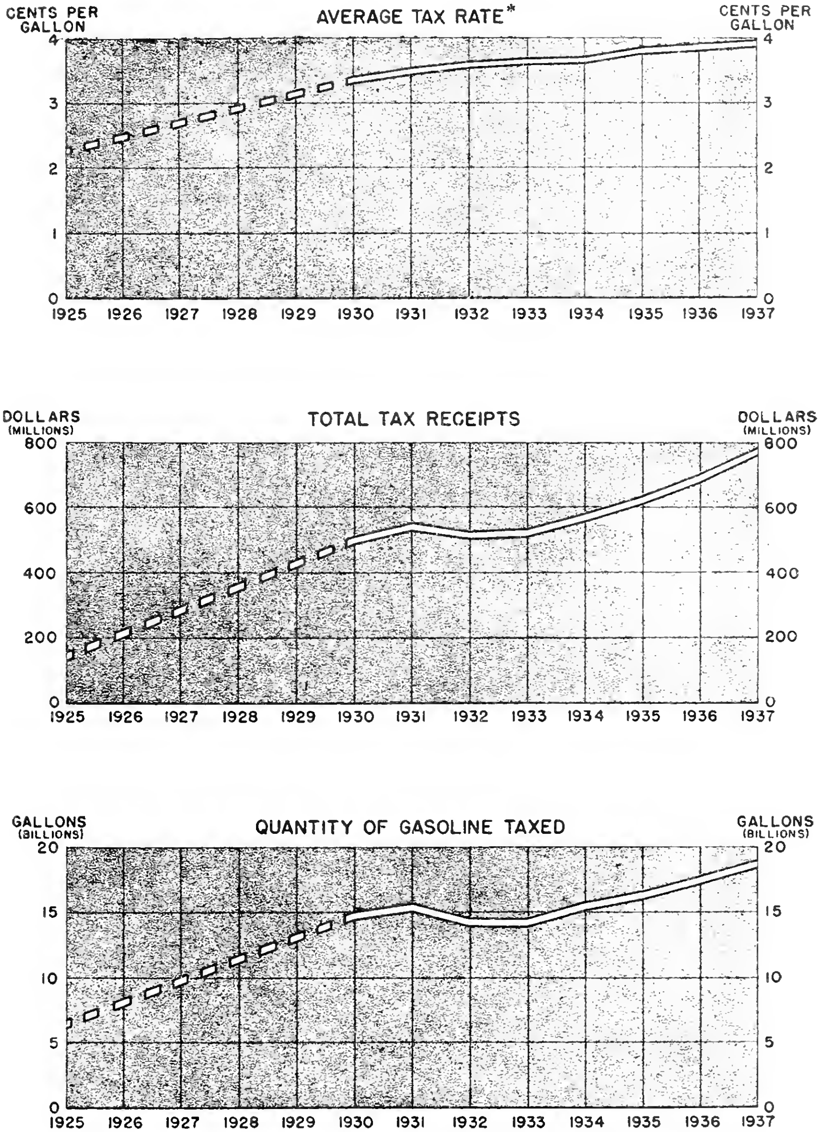
[44] 53 *Stat.*, 414 (1939) and Defense Act of 1940.

CHART 31

STATE GASOLINE TAX RECEIPTS

AVERAGE TAXRATE AND CONSUMPTION OF GASOLINE

UNITED STATES, 1925 and 1930-1937



SOURCE: Groves, Harold M., FINANCING GOVERNMENT, New York, 1939, p. 357.

*Weighted Average.

Tires and tubes.—The Federal Government imposes a manufacturers' excise tax on rubber tires of 2½ cents a pound (exclusive of the weight of the metal rims or rim bases); and on rubber tubes of 4½ cents a pound on total weight. (These taxes, prior to July 1, 1940, were 2¼ and 4 cents a pound, respectively.)[45] Thus, the ordinary tire for a medium priced car, weighing about 13 pounds, carries a Federal tax of 32 cents. The inner tube for that tire is taxed about 25 cents.

Taxes on tires totaled $33,500,000 in 1937, those on tubes $6,588,000. The former fell off to $22,083,000 in 1938, the latter to $4,688,000.

Pipeline transportation of oil and gasoline.—The Federal Government levies a tax of 4½ percent (4 percent prior to July 1, 1940) on the transportation cost of such products. For those petroleum companies which own their own pipelines and transport their own products, the tax is levied on an estimated fair price for such transportation facilities.[46]

The Federal tax on this form of transportation totaled $11,600,000 in 1938. This was in addition to pipeline charges imposed by States. The tax becomes a manufacturers' cost, easily calculable, and is passed on to the consumer of petroleum products.

Crude petroleum.—Up to June 30, 1938, the Federal Government levied a tax of 1/25 cent a barrel on the production of crude petroleum. The tax yielded $583,142 in 1938. When first imposed in 1931, the rate was 1/10 cent a barrel, which accounts for the higher yield in 1931–34.[47]

Federal taxation for conservation and social security

The Federal Government has used the tax instrument to conserve natural resources and to promote the security and welfare of various groups among its citizens. Sometimes the distinction of purposes is not precise, nor is the effect definite. For example, the Bituminous Coal Act of 1937 was passed to reestablish order and permit profitable activity in the industry, to improve general business conditions, and to ameliorate the condition of several million workers. The aims of the Social Security Act are only a little more specific. Title VIII and title IX, for instance, seek to improve working conditions by providing pensions for older workers and jobs or unemployment compensation for younger ones. In each instance, the taxing power of the Government is used to effect these social and economic purposes. (See table 52, chart 32.) These taxes are sometimes regarded as special benefit levies, and hence not taxes at all. For the purposes of this analysis, however, and to the extent that they are placed in a reserve, they have the effect on purchasing power of regressive taxes.

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[45] 53 *Stat.*. 409–410 (1939) and Defense Act of 1940.
[46] Ibid., p. 421.
[47] U. S. Treasury Department, Comparative Statement of Internal Revenue Collections by Tax Sources, 1938.

TABLE 52.—*Federal taxation for economic adjustment, conservation and social security, 1933–38*

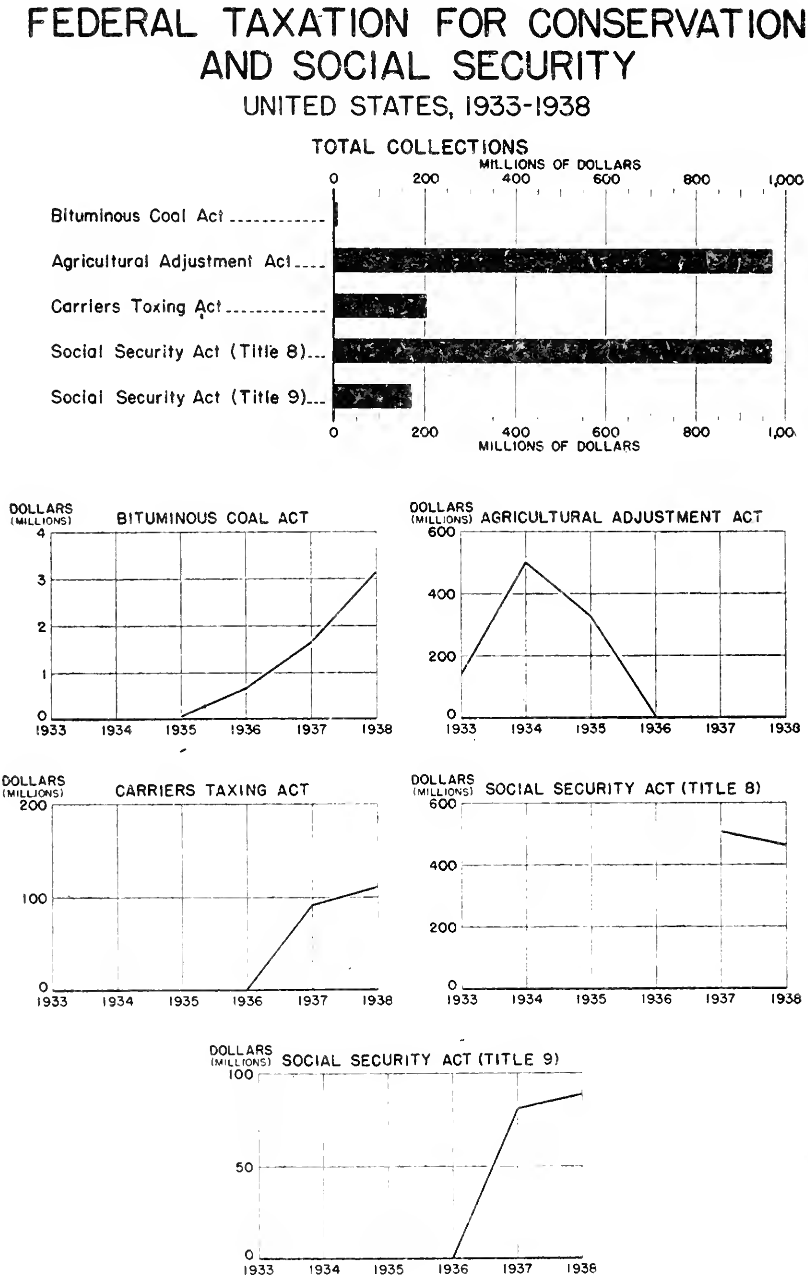
Item	1933	1934	1935	1936
Bituminous Coal Act			$60,938	$668,280
Percentage increase				996.7
Percent of total			(1)	16.4
Agricultural Adjustment Administration	$140,563,249	$500,308,155	$325,265,335	$3,145,712
Percentage increase		255.9	−35.0	−99.0
Percent of total	100.0	100.0	100.0	77.1
Carriers, Taxing Act				$230,587
Percentage increase				
Percent of total				5.7
Social Security Act, title VIII				
Percentage decrease				
Percent of total				
Social Security Act, title IX				$33,599
Percentage increase				
Percent of total				0.8
Total	$140,563,249	$500,308,155	$325,326,273	$4,078,178
Percentage increase		255.9	−35.0	−98.7
Percent of total	100.0	100.0	100.0	100.0

Item	1937	1938	1938 over 1933 [2]
Bituminous Coal Act	$1,634,641	$3,177,930	$3,116,992
Percentage increase	144.6	94.4	5,115.0
Percent of total	0.2	0.5	
Agricultural Adjustment Administration			
Percentage increase			
Percent of total			
Carriers, Taxing Act	$91,916,461	$111,098,265	$110,867,678
Percentage increase	39,761.9	20.9	48,080.6
Percent of total	13.5	16.7	
Social Security Act, title VIII	$506,180,184	$462,141,425	−$44,038,759
Percentage increase		−8.7	−8.7
Percent of total	74.4	69.5	
Social Security Act, title IX	$80,974,992	$88,611,365	$88,577,766
Percentage increase	240,904.2	9.4	263,632.1
Percent of total	11.9	13.3	
Total	$680,706,278	$665,028,985	$524,465,736
Percentage increase	16,591.4	−2.3	373.1
Percent of total	100.0	100.0	

[1] Less than 0.1.
[2] Or first year in which tax was effective.

Source: Adapted from U. S. Treasury Department, Comparative Statement of Internal Revenue Collections by Tax Sources, 1930–38.

CHART 32



SOURCE Adapted from U S Treasury Department, Bureau of Internal Revenue, COMPARATIVE STATEMENT OF INTERNAL REVENUE COLLECTIONS BY TAX SOURCES, 1930-1938

Bituminous Coal Act.—In 1935 Congress set up codes of fair practices for the bituminous-coal industry, and imposed an excise tax of 15 percent of the value of coal sold at the mine, refunding 90 percent of the tax payments to all operators who complied with the code provisions. The act was intended to regulate the coal industry, and in 1936 the Supreme Court decided that Congress did not have the power to levy penalty taxes for the purpose of regulating industry.[48]

The Guffey Act of 1937 was another effort to regulate the coal industry. It is more specifically a tax on coal, but its purpose is identical with that of the 1935 act, namely, the regulation of the coal industry. The act levies a 1-cent tax on the sale or other disposal of each ton (2,000 pounds) of bituminous coal produced in the United States. Cooperation is secured by the levy of a 19½-percent tax on the fair market value of coal sold or disposed of, from which operators who comply with the code provisions are exempted. The enforcement of the act has resulted in an increasing yield from the tax, shown in table 52, reaching $3,178,000 in 1938. There is considerable complaint from some operators, but the severe penalty clauses of the act force them to comply.

Agricultural Adjustment Administration.—With the advent of the New Deal in 1933, agricultural-adjustment taxes were passed to control and regulate the production of farm products. Direct subsidies were made to farmers, paid for out of processing taxes and cotton- and tobacco-control taxes. The former were excises levied on concerns engaged in processing agricultural commodities. The latter were levied on cotton and tobacco growers. Cotton was taxed at 50 percent of the value of all excess above quotas, and tobacco at rates ranging from 25 to 33⅓ percent. Early in 1936 the Supreme Court declared these agricultural-adjustment acts unconstitutional, and the taxes were discontinued. At their peak in 1934 these taxes yielded over half a billion dollars.

Carriers' Taxing Act.—Common carriers do not participate in the program of the Social Security Board, but have a separate program of social security for their employees. For some time prior to the passage of the general social-security laws, the common carriers had had various pension and retirement systems for their workers, and there was great pressure for a continuance of their own programs.

The Railroad Retirement Board administers the Carriers' Taxing Act. As passed in 1936, and effective January 1, 1937, the act provided a tax of 5½ percent of pay rolls for employees earning less than $300 a month. The amount was collected from employers, who would deduct half of the tax from the salaries of employees.[49] Representatives of employees' organizations were also covered by the act. By 1938 the carriers' tax collected in pay roll and employers' contributions yielded a total of $11,098,000.

Social Security Act.—In 1935 the Congress passed the Social Security Act, including the following provisions:

> *Title I. Old-age assistance.*—Sets up a national program of old-age assistance for the needy aged, 65 years or older. Financed by grants-in-aid to the States on a matching basis. Federal grants were not more than $15 per eligible person until January 1940, when the maximum was set at $20 per eligible person.

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[48] *Carter* v. *Carter Coal Co.* (298 U. S. 238 (1936)).

[49] 53 *Stat.*, 179–183. The law graduates the tax so that it levels off in 1949 at 7½ percent of pay rolls, shared equally by employer and employee.

Title II. Old-age insurance.—Establishes a system of old-age contributory insurance for certain working groups.

Title III. Unemployment insurance.—Establishes unemployment insurance for States which agree to participate.

Title IV. Dependent children.—Provides Federal aid through States to dependent children.

Title V. Categorical aids.—Provides assistance through States for maternal and child-health services, aid to crippled and handicapped children, and vocational rehabilitation.

Title VI. Public health.—Provides Federal aid in the extension of public-health services.

Title VII. Social Security Board.—Sets up the Social Security Board, and outlines its duties.

Title VIII. Old-age insurance taxes.—Provides for the accumulation in the Treasury of an insurance reserve for the old-age benefits mentioned in title II. The act sets a rate for 1937–39 of 2 percent of the pay rolls of all covered workers receiving less than $3,000 a year, half to be paid by the employer, and half by the employee. For the next 3 years the rate was set at 4 percent; and finally was to level off in 1949 at 6 percent. In 1939 Congress froze the rate at the 1 percent level until further legislation.

Title IX. Unemployment-insurance taxes.—Levies a Federal tax of 1 percent in 1936, 2 percent in 1937, and 3 percent thereafter, on employers in covered industries having 8 or more workers. The act provides that the Federal Government will return 90 percent of the tax to States which enact unemployment insurance systems compatible with the Federal act. The remaining 10 percent is retained by the Federal Government.

Title X. Aid to blind.—Provides Federal aid through States for the impoverished blind.

Funds for old-age insurance and unemployment compensation are provided by pay-roll taxes levied on workers and employers. In 1938, as indicated in table 52, old-age-insurance taxes paid $462,141,000 into the Treasury, while unemployment-insurance taxes paid in $88,611,000. All other services provided for in the Social Security Act are paid out of general revenues.

The old-age-insurance taxes are collected by the Bureau of Internal Revenue of the Treasury, not by the Social Security Board. They are placed in a special old-age-reserve account, and benefits, beginning in 1940, are to be paid from this reserve fund. Since for many years to come the funds collected will exceed the benefits paid out, the balance is to be invested in Federal securities bearing at least 3-percent interest.

Prohibitive Federal taxes

Since 1789 the Federal Government has used the taxing power to encourage or discourage, or even destroy, certain businesses, regulate others, and prevent still others from entering the field. At times the tariff has been used for these purposes; at others, direct taxes have been levied. Always such taxes have been the result of pressure exerted upon Congress by one or another business group or interested party. Usually, where recognized harmful commodities or practices

are concerned, public indignation has forced Congress to try to curb them by legislation.

Table 53, chart 33, shows the use of taxes for prohibitive or regulatory purposes. The Federal Government has made frequent use of the commerce clause of the Constitution to regulate the sale of commodities which are sent across State lines.

TABLE 53.—*Prohibitive Federal taxes, 1930–38*

[Dollar figures in thousands]

Source	1930	1931	1932	1933	1934	1935	1936	1937	1938	1938 over 1930[1]
Adulterated, etc., butter, mixed flour	$12	$11	$14	$9	$17	$17	$16	$21	$41	$29
Percent of total	2.0	1.8	2.7	1.9	3.1	2.8	2.9	3.4	6.9	------
Percent increase	------	−6.4	25.6	−31.9	80.0	−2.2	−0.9	27.0	98.8	253.1
Narcotics	$577	$589	$491	$489	$529	$564	$554	$574	$544	−$33
Percent of total	98.0	98.2	97.3	98.1	96.1	96.3	96.1	94.4	90.4	------
Percent increase	------	2.1	−16.5	−0.6	8.3	6.6	−1.9	3.7	−5.2	−5.7
Marijuana	------	------	------	------	------	------	------	$6	$5	−$1
Percent of total	------	------	------	------	------	------	------	1.0	0.9	
Percent increase	------	------	------	------	------	------	------	------	−16.7	−16.7
National Firearms Act	------	------	------	------	$4	$5	$6	$7	$11	$7
Percent of total	------	------	------	------	0.8	0.9	1.1	1.1	1.8	------
Percent increase	------	------	------	------	------	17.6	20.1	10.3	53.7	139.6
Total	$589	$600	$505	$498	$551	$586	$576	$608	$602	$13
Percent of total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	------
Percent increase	------	1.9	−15.8	−1.4	10.6	6.5	−1.7	5.4	−1.0	2.2

1 Or first year thereafter in which the tax was effective.

Source: Data taken from U. S. Treasury Department, Comparative Statement of Internal Revenue Collections by Tax Sources, 1930–38 .

Adulterated butter, etc.—Manufacturers of processed or renovated butter pay a special tax of $50 a year, and those who make adulterated butter pay a tax of $600 a year. Wholesale dealers in adulterated butter pay a tax of $480 a year; retailers $48 a year.[50]

Manufacturers of mixed flour must pay a tax of $12 a year.[51] This is regarded, not as a prohibition against the manufacture of mixed flour, but as a means of securing registration and providing for the inspection of such operations.

The tax yield from these combined sources is not large, totaling only $41,498 in 1938.

Narcotics.—The regulation of the sale and use of narcotics has for many decades been troublesome. Of late years, the connection between drugs and crime has received special attention, resulting in levying special taxes to regulate the medicinal use of drugs, and to prohibit their use for illegitimate purposes.

Although it is generally recognized that regulatory or prohibitive taxation is not within the strictest interpretation of the Constitution, the Supreme Court has upheld the laws.[52]

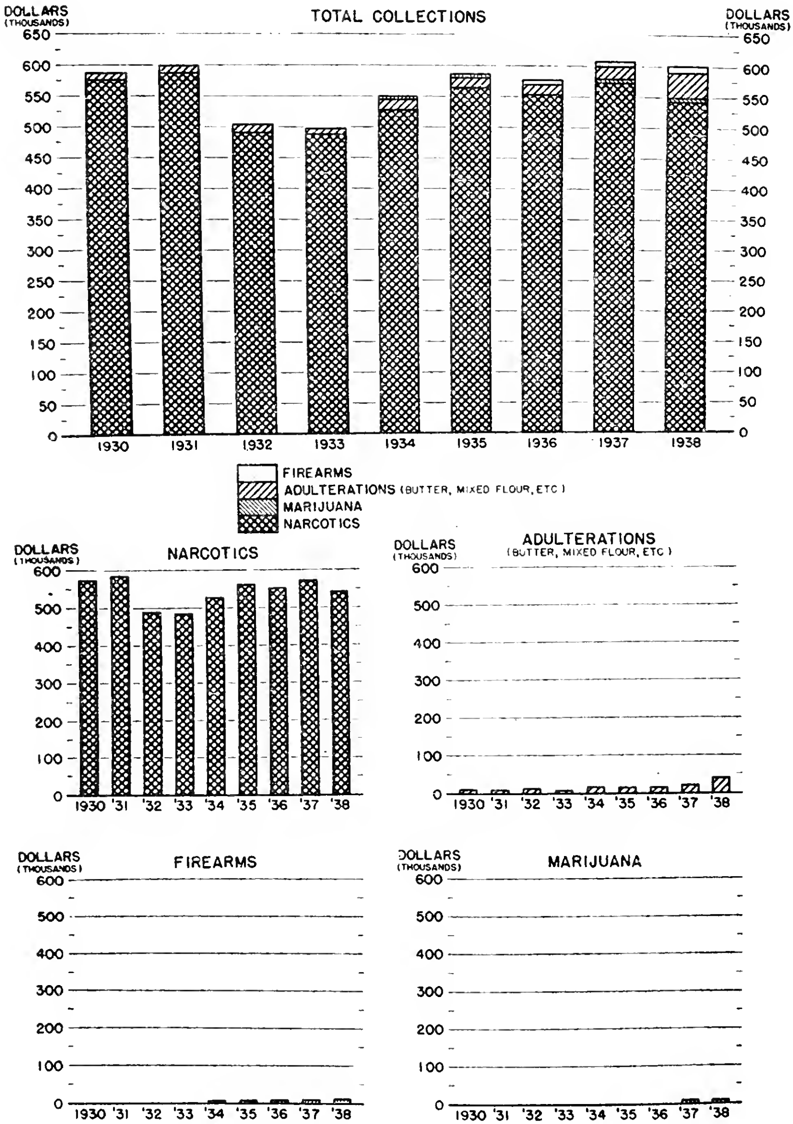
A tax of 1 cent an ounce is levied on opium, coca leaves, and their compounds or derivatives.[53] Opium for smoking is subject to a manufacturers' tax of $300 a pound. Five years' imprisonment, or a $10,000 fine, or both, is imposed for violation of the law. The scandals

50 53 *Stat.* 381 (1939).
51 Ibid, p. 382.
52 See the discussion of this problem in Facing the Tax Problem, Twentieth Century Fund, New York, 1937, ch. 13.
53 53 *Stat.* 269, 278–279 (1939).

CHART 33

PROHIBITIVE FEDERAL TAXES

UNITED STATES, 1930-1938



SOURCE: Bureau of Internal Revenue, COMPARATIVE STATEMENT OF INTERNAL REVENUE COLLECTIONS BY TAX SOURCES, 1930-1938

exposed in 1936 and 1937 revealing the peddling and use of the drug marijuana among young people resulted in the levying of prohibitive taxes by the Federal Government. For those who have not paid the registration tax and are therefore not recognized as professional persons requiring the drug for medicinal purposes, the tax is $100 per ounce or fraction thereof. The tax is not expected to produce revenue, but is used to secure the registration of persons who use or dispense the drug, and to control the drug itself.

National Firearms Act.—As part of the struggle against crime, the National Firearms Act was passed, imposing heavy taxes on the sale of firearms which are frequently used by criminals, such as machine guns, revolvers, and pistols. The tax law provides for registration of arms and manufacturers, dealers, and owners. Failure to register such weapons constitutes a serious crime, and Federal authorities have used this provision, like the income-tax law, to proceed against criminals wanted for other offenses. The revenue part of the act provides a tax on manufacturers and importers of $500, on dealers of $200, and on pawnbrokers of $300 a year.[54] In 1938 the combined yield totaled $10,665. It is not clear whether this act actually prevents the illegal manufacture, importation, or sale of firearms used by criminals, but it does provide a means of proceeding against criminals who, in a collection of sovereign States, are very difficult to apprehend and hold legally.

[54] 53 *Stat.*, 392-393.

PART IV

THE SOCIAL-ECONOMIC EFFECTS OF THE REVENUE SYSTEM

THE SOCIAL-ECONOMIC EFFECTS OF THE REVENUE SYSTEM

WHO PAYS THE TAX BILL?

THE PER CAPITA TAX BURDEN

Several methods of displaying the impact and effects of taxation are in popular use. One is the "per capita tax burden," in which total taxes collected are divided by the number of people in the United States. On this basis it is estimated that in 1938 the levy on the people of this country, exclusive of social-security taxes, was $96.76 per person, $40.10 of it going to the Federal Government, and $56.66 to the State and local governments.[1]

This, the largest per capita tax burden since 1922, was interpreted by some to mean that every man, woman, and child in the Nation bore taxes of almost a hundred dollars during 1938.

It is impossible, however, to treat taxes in this fashion. The per capita figure gives no indication of the actual impact of taxes paid, or of their effect on individual living standards or the economy as a whole.

A determination of per capita taxes of the Nation, or of any political unit within the Government, is valuable because it accommodates changes in revenue collections to shifts in population. But this does not mean that the taxes imposed actually affect the individual as the per capita figures indicate. Underlying the assumption of per capita tax burdens is the assumption that the individual's taxable status had remained the same throughout the period. Any change in these conditions, such as is constantly taking place, renders the "per capita tax" concept worthless as a measure of the impact of the tax system upon individuals.

TAXATION AND NATIONAL INCOME

Table 54 shows the relationships of tax collections to national income. The Brookings Institution, in its recent study, Capital Expansion, Employment, and Economic Stability, regards these facts as ominous, saying:

> The percentage of national income absorbed in taxes has shown a progressive increase. In 1913 only about 7 percent was taken in taxes; in the twenties the range was from 10 to 12 percent; while since 1931 the range has been from about 17 to 22 percent. * * * The expanding volume of taxes and the increasing percentage of the national income absorbed affects investment in two ways. First, it reduces the supply of funds available for investment. * * * The second effect * * * arises from the bearing of increasing expenditures upon the budget and the growth of the public debt.[2]

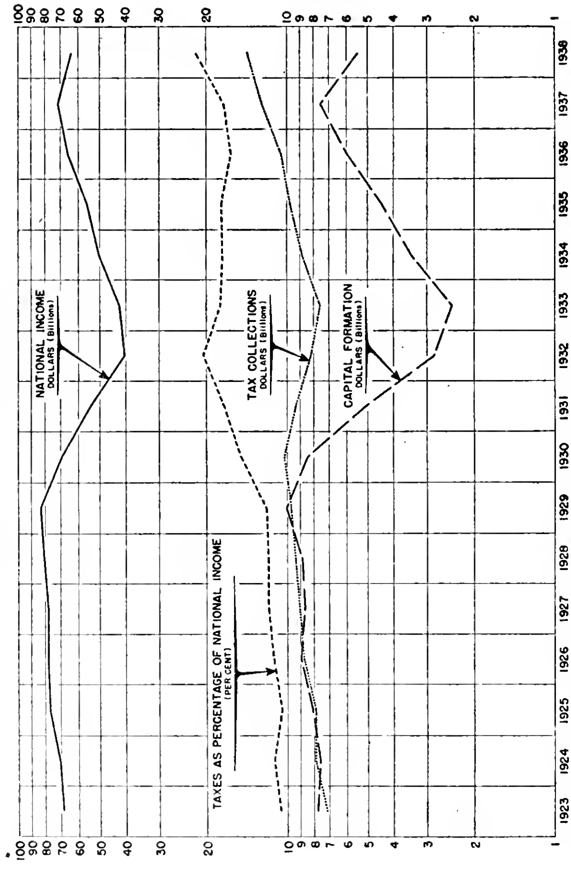
This study noted yearly fluctuations, resulting from changes in both the national income and the tax statutes. The relation between tax collections and annual income is observable in the table. (See also charts 34 and 35.)

[1] National Industrial Conference Board, Enterprise and Social Progress, New York, 1939, p. 170.
[2] Harold G. Moulton, et al., Capital Expansion, Employment, and Economic Stability, Brookings Institution, Washington, 1940, pp. 271–273.

CHART 34

COMPARISON OF NATIONAL INCOME, TOTAL TAX COLLECTIONS AND TOTAL BUSINESS GROSS CAPITAL FORMATION

UNITED STATES, 1923-1938



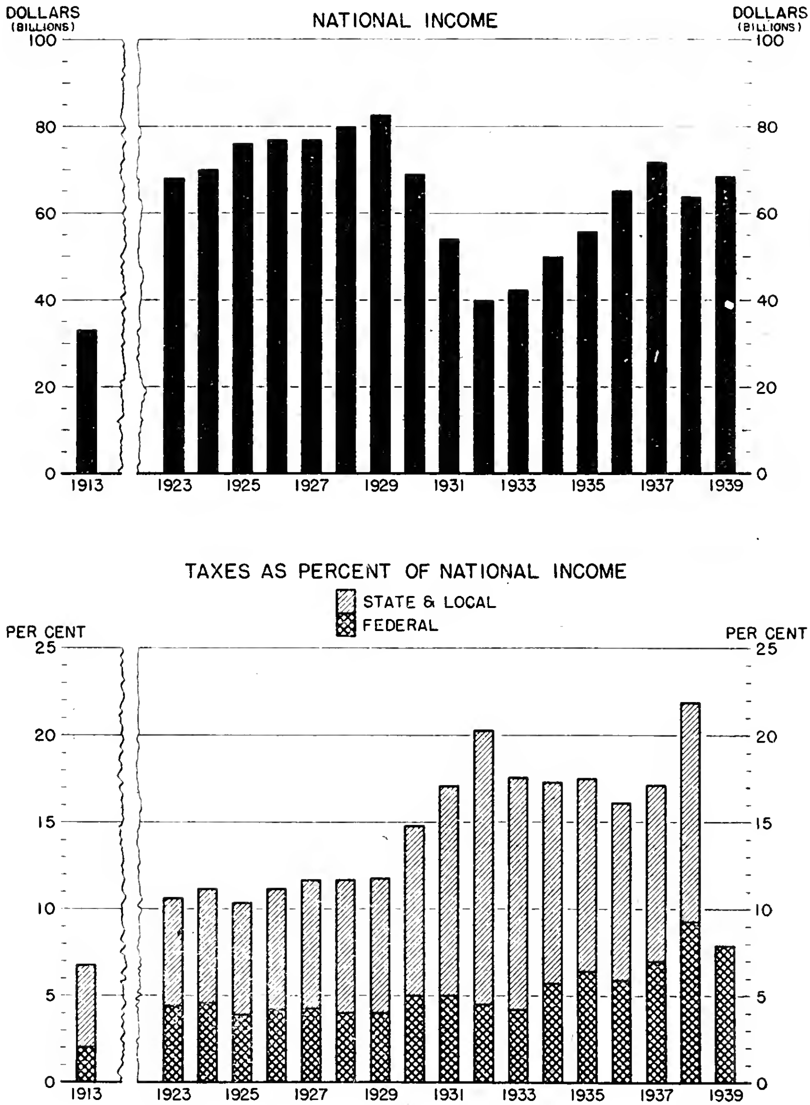
SOURCES: Data on National Income and Tax Collections taken from H G Moulton et al, CAPITAL EXPANSION, EMPLOYMENT, AND ECONOMIC STABILITY, Brookings Institution, Washington, D C, 1940, p 272 Data on Total Business Capital Formation taken from George A Terborgh, Board of Governors, Federal Reserve System, reported in TNEC Hearings on Savings and Investments, Washington, D C, 1940, p 4036

CHART 35

TAX COLLECTIONS AND NATIONAL INCOME

BY LEVEL OF GOVERNMENT

UNITED STATES, 1913 & 1923-1939



SOURCE: Adapted from H. G. Moulton, et al., CAPITAL EXPANSION, EMPLOYMENT, AND ECONOMIC STABILITY, Brookings Institution, Washington, D. C., 1940, p. 272.

TABLE 54.—*Tax collections and national income, 1913, 1923–39*

[Dollar figures in millions]

Year [1]	National income	Tax collections						Taxes as percentage of national income		
		Total	Percentage change	Federal	Percentage change	State and local	Percentage change	Total	Federal	State and local
1913	$33,000	$2,259		$662		$1,597		6.8	2.0	4.8
1923	68,000	7,234	220.2	3,032	358.0	4,202	163.1	10.6	4.4	6.2
1924	70,000	7,812	8.0	3,193	5.3	4,619	9.9	11.2	4.6	6.6
1925	76,000	7,884	.9	2,966	−7.1	4,918	6.5	10.4	3.9	6.5
1926	77,000	8,605	9.1	3,207	8.1	5,398	9.8	11.2	4.2	7.0
1927	77,000	9,059	5.3	3,337	4.1	5,722	6.0	11.7	4.3	7.4
1928	80,000	9,342	3.1	3,194	−4.3	6,148	7.4	11.7	4.0	7.7
1929	82,691	9,759	4.5	3,328	4.2	6,431	4.6	11.8	4.0	7.8
1930	69,104	10,266	5.2	3,468	4.2	6,798	5.7	14.8	5.0	9.8
1931	54,249	9,300	−9.4	2,717	−21.7	6,583	−3.2	17.1	5.0	12.1
1932	40,089	8,147	−12.4	1,789	−34.2	6,358	−3.4	20.3	4.5	15.8
1933	42,504	7,501	−7.9	1,786	−.2	5,715	−10.1	17.6	4.2	13.4
1934	50,611	8,773	17.0	2,892	61.9	5,881	2.9	17.3	5.7	11.6
1935	55,794	9,731	11.0	3,546	22.6	6,185	5.2	17.5	6.4	11.1
1936	65,226	10,498	7.9	3,847	8.5	6,651	7.5	16.1	5.9	10.2
1937	71,883	12,300	17.2	5,028	30.7	7,272	9.3	17.1	7.0	10.1
1938	63,993	14,000	13.8	5,936	18.1	8,064	10.9	21.9	9.3	12.6
1939	68,500			5,416	−8.8				7.9	

[1] National income is for calendar year; taxes are for fiscal years ending June 30.

Source: Adapted from H. G. Moulton et al., Capital Expansion, Employment, and Economic Stability, Brookings Institution, Washington, 1940, p. 272.

Moulton argues that corporate and personal income tax rates should be reduced in order to reduce the percentage of national income taken by taxes, and so leave funds free for economic expansion. The argument does not stand up under analysis. In chart 36 the data on national income and tax collections are plotted, in relation to gross business capital formed, exclusive of inventories, for the period 1923–38. The time span covers both the prosperity era of the twenties, characterized by low income tax rates, and the entire period of New Deal spending, with greatly increased surtaxes on individual incomes and corporation profits.

If it is true that high taxes cause curtailed investment of business capital, these figures should show it. But in only 2 prosperous years, 1924 and 1927, and only 2 depression years, 1930 and 1938, did an increase in tax collections coincide with a decrease in capital formation or a decrease in tax collections coincide with an increase in capital formation. In the remaining 11 years, 5 in prosperity and 6 in depression, tax collections and capital formation either rose or fell simultaneously. It seems clear that taxes, while important, do not determine whether capital investment shall expand or contract. Nor does the evidence present any cause for alarm in the present ratio of tax collections to national income.

The yearly variations in tax collections noted in the table can have little immediate effect on investment, and only if the "extractions" are so heavy as to actually curtail investment funds can they be regarded as dangerous in the long run. The Brookings study acknowledged that this effect could only occur when investment capital is scarce, whereas during the whole period of expanding tax collections idle funds

have continued to pile up in increasing amounts. There is no evidence that the present tax structure has limited the amount of investment capital available.

Certain economists fail to credit public expenditures with the income-producing ability attributed to private expenditures, saying that taxes "absorb" national income. As has been pointed out repeatedly here, this charge is unsound, for a very substantial part of all Government expenditures goes into various activities which add materially to the wealth and income of the Nation. It is impossible, therefore, to say that absorption of the national income through taxes will inevitably curtail investment and the production of income.

Lowell Harriss, in the Twentieth Century Fund tax study, concluded:

> Statements that taxes absorb or take a certain percentage of the national income are invalid or at least misleading, especially if there is an implication that the sum paid in taxes is a burden, a weight, or a reduction of the total income.[3]

His reasons for this statement are summarized as follows:

> 1. The methods of computing national income do not permit such statements, for, if the basis is that of goods and services produced, the net income which results cannot be reduced further; if the estimate is of income paid out this sum available for distribution cannot be reduced further.
> 2. Items not included in estimates of national income are a large and unusually stable part of all economic effort whose exclusion exaggerates the amplitude of fluctuations in national income and influences the statements about tax burden related to it.
> 3. Tax payments are not withdrawn from the flow of funds in economic life. To so deduct them from national income is to disregard their contribution to that income.

Of the realized income of the Nation, defined as—

> the aggregate amount of money estimated to have been received by all individuals as a return for labor, management service, and investment, or from Government relief payments during the year, plus in some instances * * * the value of goods used in personal consumption by their producers [4]—

total tax collections were 22.4 percent in 1938, 9.5 percent of which were Federal revenues, and 12.9 percent State and local.

As noted earlier, the Government is becoming increasingly more important in the economic life of the Nation. In 1929 realized income from governmental sources totaled $6,819,000,000, or 8.6 percent of the national income; by 1937 the sum had reached $11,566,000,000, or 16.7 percent.[5] However, both the amount of income from Government and its relation to total national income shift with changes in the general economy. For example, in 1936 income from Government was higher in both amount and proportion of the total than in 1937. The amount in 1937 was higher than in any year since 1932 except 1936, but its proportion of the total was less than in any year since 1932.

This raises the question of the relative position of the public and private sectors of the economy. The launching of the recent pre-

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[3] C. Lowell Harriss, The Tax Burden and the National Income, The Tax Magazine, January 1938.
[4] National Industrial Conference Board, Enterprise and Social Progress, p. 170, footnote to chart.
Ibid., p. 165.

paredness program indicates that the public sector will become increasingly dominant. On the other hand, it is quite possible that its role will vary with changing conditions in the national economy, and may even become smaller. There is little in our experience, recent or remote, to permit any accurate prophecy.

The ratio of governmental to private economic activity is important to the discussion of who pays the Nation's tax bill. If the Government assumes an increasing role as employer, producer, and distributor of economic goods, then more of the needed revenues are likely to be obtained from the Government itself. If the contrary condition prevails, then the private sector of the economy may be tapped for more tax revenue.

The New Deal has insisted that the important task is to raise the national income to $80,000,000,000 a year, or more, making sufficient tax revenues available at existing, or even lower, rates to liquidate existing deficits, balance the budget, and pay for the governmental services demanded by the people. This reasoning is based on the ratio of the tax burden to total income, which appears to sum up briefly the effect of taxation on the economy. It conceals far too much, however, to be the single factor in the determination of tax policy.

Alarmists look at the mounting yearly figures on the relation of taxation to the national income, and conclude that we are fast approaching an abyss of economic disaster. Yet the trend has not been steadily upward, nor has it been astoundingly rapid. In fact, except for the unusual years 1930–32 and 1936–38, the pattern has been one of a succession of plateaus.

It is impossible to tell, from any over-all figures on the ratio of taxes to national income, at what point that figure becomes a threat to our economic stability. Much more information than is now available on the role of the Government in the economy, on the shifting and incidence of taxes, and on the economic effects of fiscal policy is necessary for that purpose.

The ratio of taxes to national income as a measure of the effect of taxation is subject to the same criticism as the per capita tax burden. The "national income" is a statistical concept which varies with different users. According to the Department of Commerce, it is an estimate of the net value of all commodities produced and all services rendered, arrived at by estimating the gross value of all goods and services produced, and subtracting the value of all raw materials and capital equipment consumed in the processes of production. It includes, generally, only those efforts whose results appear on the market place, leaving out, for example, services of a housewife in her home.[6] This complicates any trend figures of national income, for many domestic activities have been transferred from the home to the factory, and many services formerly rendered as part of the household arts now appear in the market place. Income trends covering any appreciable period of our national existence are in consequence much suspect.

The estimates of national income are not only crude, and of doubtful value in describing trends, but are much too broad for use in measuring the impact of taxation. They do provide, however, a concept of great value in measuring the productivity of the entire economy. National

[6] Robert R. Nathan, Income in the United States, 1929–37, Washington, 1938, p. 3.

income, likewise, may be used as a measure of the approximate base of taxable resources. But it does not in any way indicate the distribution of income among individual income receivers, whose circumstances are quite unlike, and who, therefore, feel quite differently the impact of the tax system.

EFFECT OF TAXATION ON DIFFERENT ECONOMIC CLASSES

The extensive literature on the effects of the revenue system is largely academic, and taken up with theoretical considerations of shifting and incidence of the various taxes, determined according to theories concerning prices and how the specific taxes affect price behavior. Valuable as these studies are, they do not determine the actual effect of the revenue system upon the taxpayers of the Nation. To do this, it would be necessary to examine very carefully all the tax payments made by all taxpayers to the several jurisdictions of Government. Even this would be only a beginning, however, for it would also be essential to determine whether those who paid the taxes actually bore their burden.

No study of this magnitude has ever been attempted. Nor do available Government figures on tax payments permit even summary conclusions on this problem. Revenue statistics have been hedged about with great secrecy, and many tax statutes contain provisions guaranteeing complete concealment of information given by taxpayers. While such provisions undoubtedly serve a reasonable purpose in many instances, some tax administrators have come to frown upon any thoroughgoing economic analysis of the official records, which could be made by competent economists without in any way violating the provisions of confidence imposed by the tax laws. Such studies would aid greatly in determining the precise effects of revenue laws upon individual taxpayers and the various economic groups subject to them.

Nevertheless, much progress has been made in determining the impact and effects of taxation on variously circumstanced groups of citizens. The most careful published analysis of this kind is the Twentieth Century Fund study which appeared in 1937. This study commented:

> The difficulties of ascertaining the distribution of the tax burden create an unfortunate temptation to conclude that principles of tax justice are not vitally important from the practical point of view. However, the difficulties must not be exaggerated. The skilled observer can make some progress toward an intelligent judgment. * * * The tax burden of an individual can be measured only after knowing what amount of the taxes that he pays is shifted to others, and what amount of the taxes of others is shifted to him. In other words, the test is the taxes borne rather than the taxes paid. * * * In view of these difficulties, very little confidence can be placed in the tax burden figures given in the recent flood of literature on "unseen" or "hidden" taxes.[7]

In the Twentieth Century Fund study, two States, New York and Illinois, were selected for comparison, because at the time of the study (1936), New York had no general sales tax and depended largely on personal and corporate income taxes, while in Illinois just the reverse conditions prevailed. Families of identical composition were chosen, and incomes ranged from $500 to $1,000,000 or more. Five different series of conditions of impact, incidence, and effect of taxation

[7] Twentieth Century Fund, Facing the Tax Problem, New York, 1937, pp. 220–237.

were distinguished, in an effort to indicate the conditions prevailing among a substantial proportion of all taxpayers. In one of the most typical series of circumstances, the percentage of all taxes borne by New York families to total family income ranged from 13.2 to 84.5 percent; for Illinois families the range was from 10.1 to 80.8 percent. Safeguarding their data as carefully as possible, and warning the reader that the findings are "too uncertain to warrant any conclusions beyond limited generalizations," the study is summarized as follows:

1. The tax system as a whole is regressive for the lower income groups, and distinctly progressive for the upper income groups.
2. The burden of the New York system exceeds that of the Illinois system.
3. Urban tax burdens exceed rural tax burdens.
4. The large number of taxes that can be shifted have so diffused the burden that it would be practically impossible for any individual to escape a substantial tax burden even though it would be possible to pay no tax directly.[8]

The families with incomes below $2,500 a year spend a disproportionately large amount of their income on consumption goods required to live. It is these families which are burdened heaviest by the various consumption taxes which loom so large in the total revenue system. These families, according to the Twentieth Century Fund study, face a more regressive tax system than families with larger incomes. Referring specifically to families with annual incomes over $1,000,000, the survey reports:

These families can maintain their estates intact, however, and enjoy a free income of over $200,000, after allowing for all concealed taxes, simply by dividing the property and income between husband and wife. Also, they may reduce their taxes even further by sharing property and income with their children or by transferring part of their property to a personal holding corporation. It is possible for a family to be so wealthy that they cannot under any circumstances, by legitimate means, maintain their estate intact at death under the present tax system, but the Statistics of Income record few such cases.[9]

The National Resources Committee, in its study of consumer expenditures referred to earlier,[10] has obtained some material on personal taxes paid. The data were not sufficiently inclusive to portray the tax burden of the several income classes in the population, but they formed a useful basis for such a study made recently by Miss Helen Tarasov and Dr. Gerhard Colm, tax experts of the Department of Commerce.[11]

These figures have been carefully assembled and meticulously treated, but the subject is so involved and the data sometimes so inconclusive or fragmentary that the authors warn against too free use of the findings by those inexpert in tax problems. The tax figures in tables 55 and 56 are taken from data supplied by Dr. Colm and Miss Tarasov. The tables are believed to represent fair approximations of the existing conditions, and are the only data of this kind available.

According to table 55, chart 36, the lowest income group, with less than $500 a year, is made up of families and single individuals whose average income is $346; they are 17 percent of all income groups in the Nation; despite their very meager income, they are confronted with an accumulation of hidden taxes and consumers' levies which

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[8] Ibid, p. 237.
[9] Ibid., p. 236.
[10] See p. 16.
[11] Gerhard Colm and Helen Tarasov, Monograph No. 3, Who Pays the Taxes? Allocation of Federal, State, and Local Taxes to Consumers' Income Brackets, Temporary National Economic Committee, Washington, 1940.

take 22 percent of it away from them. At the other extreme of the income scale are families and single individuals having incomes of $20,000 or more; their average income is $47,600; they make up only 0.3 percent of all income groups, and pay out 37.8 percent of their income in taxes.

TABLE 55.—*Effect of the American tax system on the various income classes—1939*

Income classes range	Mean income [1]	Percentage of all income units [1]	Percentage of income paid out in taxes		
			Federal [2]	State and local [2]	Total[1]
Under $500	$346	17.0	7.9	14.0	21.9
$500 to $1,000	847	29.5	6.6	11.4	18.0
$1,000 to $1,500	1,381	22.1	6.4	10.9	17.3
$1,500 to $2,000	1,929	13.1	6.6	11.2	17.8
$2,000 to $3,000	2,689	11.3	6.4	11.1	17.5
$3,000 to $5,000	4,121	4.6	7.0	10.6	17.6
$5,000 to $10,000	7,741	1.5	8.4	9.5	17.9
$10,000 to $15,000	12,872	.4	14.9	10.6	25.5
$15,000 to $20,000	19,477	.2	19.8	11.9	31.7
$20,000 and over	47,600	.3	27.2	10.6	37.8
Total	1,693	100.0	9.2	11.0	20.2

[1] Taken from table C, "Basic Data on Consumer Incomes."
[2] Taken from table I, "All Taxes as Percent of Consumer Incomes, 1938-39." Business taxes were assumed to be shifted to consumer incomes.

Source: Figures taken from various tables in "Who Pays the Taxes, Allocation of Federal, State, and Local Taxes to Consumer Income Brackets, by Gerhard Colm and Helen Tarasov, Monograph No. 3, Temporary National Economic Committee, Washington, 1940.

No reasonable progression is indicated in the tax burdens of the several income classes. For example, those with incomes from $5,000 to $10,000, averaging $7,741, pay a smaller percentage of their large incomes in taxes than does the lowest group trying to subsist on an average of $346 a year.

State and local taxes are higher than Federal taxes for all groups below $10,000, and lower for the groups above $10,000. Federal taxation is felt most by those with the higher incomes, upon whom income and profits taxes are heaviest.

It appears from these figures that groups with incomes from $1,000 to $10,000 are most favored by existing tax laws. Their taxable net incomes are too small to be hard hit by the income-tax levies, and yet they have funds available above the consumers' expenditures now taxed by various sales and excise levies. Here is a reservoir of tax sources which should commend itself from both a social and economic standpoint to seekers for additional tax revenues.

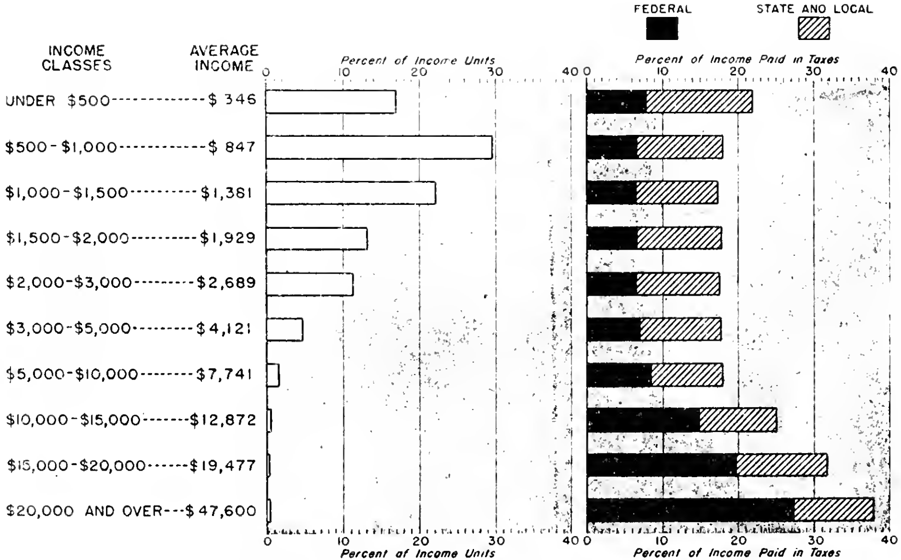
The data do not indicate that the upper income groups are excessively burdened, even though they pay a higher percentage of their incomes in taxes than other income groups. A ratio comparison between them and other income groups does not necessarily express their taxpaying ability, for expenditure studies show that their tax payments do not involve equal sacrifice with lesser-circumstanced groups.

In this connection, table 56, chart 37, displays the proportion of income, savings, consumer expenditures, and taxes paid, for the several income groups. The lowest group, averaging $346 a year and making up 17.0 percent of all income groups, received only 3.5 percent

CHART 36

EFFECT OF THE AMERICAN TAX SYSTEM ON VARIOUS INCOME CLASSES

1939



SOURCE: Figures taken from various tables in WHO PAYS THE TAXES? ALLOCATION OF FEDERAL, STATE, AND LOCAL TAXES TO CONSUMER INCOME BRACKETS by Gerhard Colm and Helen Tarasov, Monograph No 5, Temporary National Economic Committee, Washington, D. C., 1940

of all income; made no aggregate savings; accounted for 5.2 percent of all consumer expenditures; and paid 3.7 percent of all taxes. The highest income group, averaging $47,600 a year and comprising only 0.3 percent of all income classes, enjoyed 8.4 percent of all income. They were individually able to set aside sums of money large enough to account for 30.4 percent of all positive savings made by the American people. Despite their luxurious standard of living, they accounted for only 3.1 percent of all consumer expenditures and paid 17.0 percent of all taxes.

TABLE 56.—*Proportion of income, savings, consumption expenditures, and taxes borne by the several income classes (1939)*

Income classes range	Mean income	Percent of all income units	Percent of total income	Savings			Percent of current consumption expenditures	Percent of total taxes
				Percent of total savings	Percent of positive savings	Percent of income saved		
Under $500	$346	17.0	3.5	−7.2			5.2	3.7
$500 to $1,000	847	29.5	14.6	−2.5			17.8	12.8
$1,000 to $1,500	1,381	22.1	17.9	8.1	7.4	5.2	20.0	15.0
$1,500 to $2,000	1,929	13.1	14.9	7.4	6.8	5.8	16.4	12.9
$2,000 to $3,000	2,689	11.3	17.7	14.6	13.3	9.6	18.6	15.1
$3,000 to $5,000	4,121	4.6	11.1	16.3	14.8	17.0	10.5	9.7
$5,000 to $10,000	7,741	1.5	6.9	17.3	15.8	29.4	5.3	6.2
$10,000 to $15,000	12,872	.4	3.0	9.1	8.3	35.8	1.9	4.0
$15,000 to $20,000	19,477	.2	2.0	6.5	5.9	36.9	1.2	3.6
$20,000 and over	47,600	.3	8.4	30.4	27.7	42.2	3.1	17.0
Total	1,693	100.0	100.0	100.0	100.0	11.7	100.0	100.0

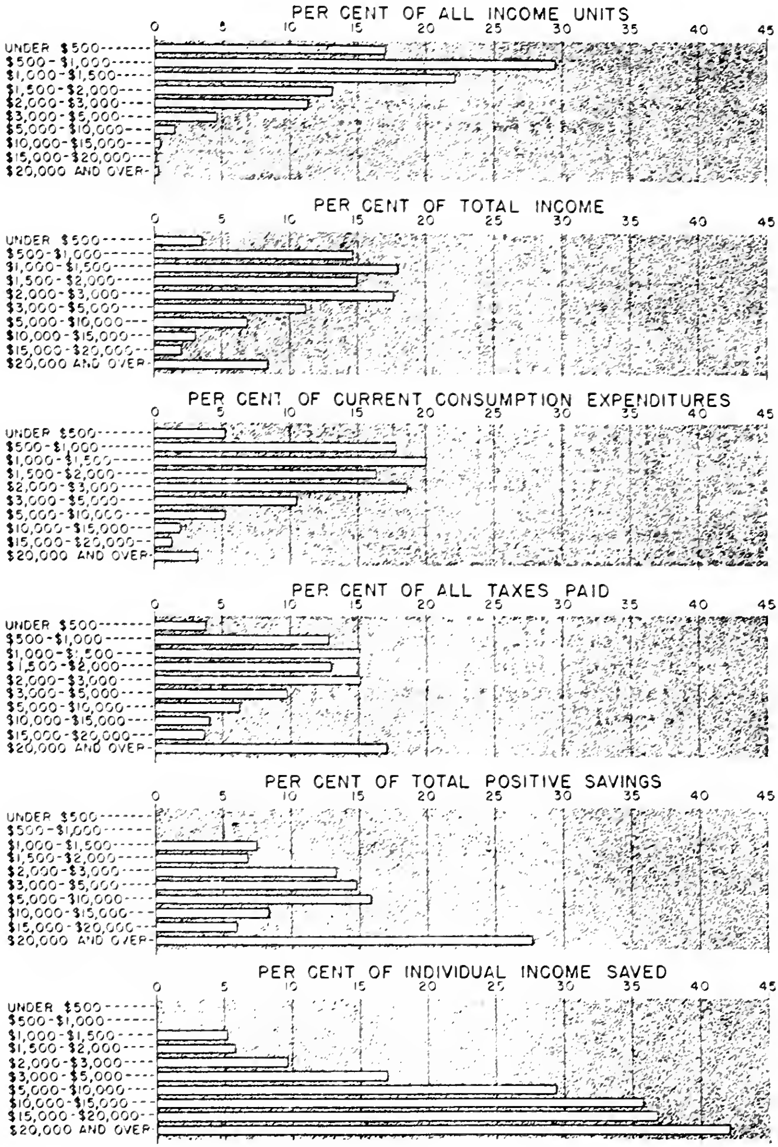
Source: Figures taken from various tables in Who Pays the Taxes? Allocation of Federal, State, and Local Taxes to Consumer Income Brackets, by Gerhard Colm and Helen Tarosov, Monograph No. 3, Temporary National Economic Committee, Washington, 1940.

The higher income classes possess great income reserves above the needs and luxuries of life, or taxes imposed. In comparison with all other income groups in a democracy committed to the concept of placing the tax burden on those able to pay it, these wealthy people are highly favored.

Chart 37

INCOME, SAVINGS, EXPENDITURES AND TAXES PAID

BY INCOME LEVELS
UNITED STATES, 1939



SOURCE: Figures taken from various tables in WHO PAYS THE TAXES? ALLOCATION OF FEDERAL, STATE AND LOCAL TAXES TO CONSUMER INCOME BRACKETS by Gerhard Colm and Helen Tarasov, Monograph No. 5, Temporary National Economic Committee, Washington, D.C., 1940

THE SHIFTING AND INCIDENCE OF TAXATION

The literature on public finance is plentifully supplied with academic discussions of the shifting and incidence of taxation. The masterly discussion of the subject in 1892 by E. R. A. Seligman, long dean of tax experts in this country, is still standard, with some amplification in the way of modern illustrations and simplified explanations. Groves presents the subject very clearly in his Financing Government,[12] and his arrangement is followed in the outline presented here.

Distinguishable stages in taxes are described as:

1. Impact—the effect upon the taxpayer who actually pays the tax is called the "impact."
2. Incidence—the place of the ultimate or final burden.
3. Effect—all the consequences of a tax except its impact and incidence. (Example, a tax effect not related to either impact or incidence is the cost of tax bookkeeping necessary to make tax reports to the Government.)

It is apparent at once that these three supposedly different aspects of shifting of the tax burden are not necessarily unrelated. In fact, the impact and incidence of such a tax as the personal net income levy are identical, for it is paid by the person upon whom the final burden rests. Short of very elaborate studies of tax effects, it is extremely difficult to clearly separate incidence from effect.

No satisfactory selection of taxes, or judgment of their social-economic effects, can be made until the problem of shifting has been resolved. Seligman long since pointed out that shifting is a price process.[13] If the tax is to be shifted, it must be passed on in the price of the commodity, property, or service taxed. The effect of a tax on the price is shown in relation to the supply of the object taxed. When the imposition of a tax does not affect the supply, the price of the object is unchanged; hence, the tax is not shifted. The impact and incidence of the tax are identical and, therefore, remain with the taxpayer at the point of levy.

If a commodity tax increases cost of production and thus lim the supply available, the price of the commodity is raised. In such a case shifting occurs, but the incidence of the tax is obscured. It may be, and usually is, passed on as part of the higher price to the ultimate customer. This type of tax shifting is "forward" from the individual who bears the impact of the tax to the one who finally pays it. Many manufacturers' excises are often shifted forward through several relays of taxpayers before they are finally paid by the ultimate consumer. What occurs in this complicated situation is not clearly known in fact, although theoretical assumptions can be set up to explain different tax effects.

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[12] Harold M. Groves, Financing Government, Henry Holt, New York, 1939.

[13] For a good brief discussion of the theory of shifting of taxes, see M. Slade Kendrick's book Taxation Issues, Harpers, New York, 1933, ch. V.

Not all taxes are shifted forward. Groves uses as an illustration the imposition of a processing tax on butter. If the tax is sufficiently high to impair the sale of butter, it may be necessary, in order to meet the selling market, to force a lower price for the raw materials. In this case, the milk producer may suffer the effects of the tax in a lowered price for his product.

Nor do raw-material producers always bear the effects of taxes which are shifted backward. In some cases, where competitive conditions do not permit price rises, employers succeed in cutting wage costs, which means that the tax burden is shifted back to the workers in the industry.

Another form of shifting, namely, "capitalization," is recognized, and the sale of farm land is the usual example given. Property taxes are relatively stable and can be computed for some reasonable span of future time. A prospective buyer easily ascertains the tax levy, and, having in mind some alternatives for the use of his capital, may obtain the land at a price which is less than its crop-production value by the amount of the taxes to be paid for a given period. As Groves says, "It is as though the government had imposed a mortgage (equal to the amount of taxes) on the land and the buyer had purchased only the original owner's remaining equity." [14]

Information on tax capitalization is very fragmentary. It is not clear whether such capitalization is confined to land taxation, how much it is used in land sales, or to what degree it has permeated other types of business transactions. As taxes become well defined in character and scope, and as they remain on the statutes long enough to be readily recognized as a part of business costs, they may be subjected to this form of shifting in the sales of stocks and bonds, in the operations of enterprises subject to severance taxes, and in special commodities which are taxed separately.[15]

These observations on the shifting and incidence of taxation presume certain competitive conditions, which may prevail in one sector of the economy and not in another, or which may be localized in given areas within the same sector and not reflect Nation-wide conditions at all. The number of sellers who are so situated that they can set and control their prices is not great. Even under monopolistic conditions where the producer may be expected to set prices at the point which will bring him the largest net profit, there are restraining elements in the economy, such as possible competition from substitute commodities, price resistance on the part of the buying public, and difficulties in calculating taxes which vary with successive legislative acts or different administrative interpretations. All these factors play their part in preventing complete shifting of the tax by the person suffering its first impact.

Although these qualifications complicate the problem of determining who pay the taxes, they do not make it less important. Granting the impossibility of determining precisely, at this stage of our knowledge, the incidence and shifting of the tax burden, there are some recognizable conditions which favor shifting. Groves indicates them as follows:

[14] Groves, op. cit., p. 123.
[15] Twentieth Century Fund, Facing the Tax Problem, New York, 1937, p. 244.

1. Shifting is likely to occur when the tax levied strikes all competitors proportionately.
2. If the demand is inelastic, it is easier to pass the tax along in higher prices to consumers.
3. In those industries experiencing decreasing unit costs, taxes are more apt to be reflected in increased prices.
4. Shifting occurs within a given field only when taxes are universal.
5. Shifting is a slow and uncertain process.
6. Taxes are usually more easily shifted in a sellers' than in a buyers' market; in good rather than in bad times.

With these qualifications in mind, and with the understanding that it is only one of the important elements in determining who pays taxes and what are the social-economic effects of the tax system, it is possible to indicate the incidence of certain broad groups of taxes.

Poll taxes involve no sale or use of a commodity or property. Their impact and incidence are identical, and there is no evidence that they are shifted.

Property taxes vary in the amount of shifting that occurs, dependent upon the type of tax and subject of the impost. Land situs taxes are probably not shifted, except in some instances where they are capitalized. Taxes on buildings and equipment are shifted, because they tend to decrease the supply and thus affect the price, so that the tax levy becomes a factor in rent, selling price, or the cost of business. Personal property taxes are probably not shifted if the goods taxed are being used by their owners.

Net-income, inheritance, estates, gift, and net-profits taxes are levied on the basis of net remainder of income received after the costs of doing business have been taken care of. Their impact and incidence are considered identical, and no shifting occurs. Exceptions are frequently noted for some profits taxes, where some shifting is said to occur.

Gross income taxes are levied on payments for goods or services, but they permit no deductions or allowances for costs, and, unlike retail sales taxes, are levied on every transaction where gross income appears. They are commonly referred to as "turn-over taxes." Bearing in mind the necessary qualifications concerning shifting given above, it is presumed that such taxes are included in costs of production, and are shifted to the ultimate consumer. Competitive conditions and other factors, may operate to make this shifting imperfect.

Excise taxes are commodity levies imposed on manufacturers and processors. They are similar in their economic character and tax effects to gross income or transactions taxes. They are usually calculable and are probably shifted to the ultimate consumer. It may be, however, that shifting by capitalization is at work in certain well-established businesses, where the effect of excise taxes is noticeable in the price of corporation stocks.

Retail sales taxes are consumption taxes. In some States the law provides that they must be added to the selling price and cannot be absorbed by the seller, in which case the tax is shifted. Where no such restriction exists, the shifting of the

retail sales tax to the ultimate consumer may be imperfect, with tax effects on intermediary business agents of varying but unknown amounts.

Pay-roll taxes such as are extensively employed in financing the social security program are probably subject to much shifting, but their incidence is not known with any degree of precision. They are probably divided among employers, workers, and consumers, but in what degree or under what conditions it is impossible to say. The opinion is growing that the levy falls largely on the working population, either as workers or consumers.

Taxes on intangibles, such as mortgages and other business paper, are subject to shifting. The amount of shifting depends on conditions in the investment market.

THE RATE STRUCTURE AND ITS EFFECT

Representative Samuel Pettengill, in offering changes in the rate structure of the estates tax in 1934, said:

> If democracy is to survive, and if the system of private ownership of property which we call capitalism is to survive the time has certainly come when we must place much heavier restrictions than we have in the past upon the accumulation of great fortunes. The man who makes this statement is not a radical, he is a conservative. He is trying to conserve the best values of our civilization.[16]

Representative Pettengill compared the $64,770,000 collected in estates taxes by the Federal Government in 1930 with the rate structure imposed in England at that time, concluding that if the British rates had been applied, the Federal Treasury would have collected almost nine times as much. He pointed out that these much heavier tax rates in Britain did not "discourage thrift nor the natural desire of men to make reasonable provision for their widows and children." He concluded that, "The concentration of wealth has dried up the purchasing power of the consuming masses of America"; this wealth "must be more widely distributed through the imposition of [higher] taxes on large incomes and inheritance." [17]

Quite the contrary viewpoint was expressed by Nicholas Murray Butler, president of Columbia University, in an address on preserving American democracy, when he said:

> American democracy * * * may be undermined subtly * * * by revolution in taxation * * *. The moment that the power of taxation is used to redistribute the national savings and to penalize as though they were criminals those individuals whose honest accumulations are large, that moment taxation has departed from the principles upon which a democracy rests.[18]

These speeches represent the two contrasting attitudes toward taxation which are struggling for mastery in the United States. Both maintain that they seek to preserve democracy and the capitalistic economy. Each wishes to use the tax system as fully as possible for that purpose. The first argues that income, gift, and inheritance tax laws and their progressive rate structures must be used to curb the increasing accumulation of large hereditary fortunes and to redistribute wealth. The second denies the right, desirability, or possibility of applying these rate structures to produce such effects.

Taxes levied on net incomes of individuals and business institutions, gifts, estates, inheritances, and profits lend themselves to the application of a variable rate structure. Because they are levied on evidences of net economic gain, and hence do not take from individuals sums which they need for the necessities of life, or add to the costs of production for business institutions, they have acquired a halo of justice in comparison to other forms of taxation which commends them to the

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[16] Congressional Record, 73d Cong., 2d sess., pt. 3, p. 2635.

[17] Reported in Gustavus Myers, The Ending of Hereditary American Fortunes, Julian Messner, New York, 1939, p. 342.

[18] *Ibid.*, p. 366. The address was delivered September 4, 1938.

public. Because they are probably less harmful to the economy than other forms of taxation, and in fact may often exert a helpful influence in curtailing the concentration of wealth and offsetting consumers' taxes which limit the consumption of goods, such taxes on wealth and income have gained increasing support among economists.

With the modern emphasis on taxation as an instrument for the peaceful reorganization of economic life, and its partially successful use in some of the older capitalistic nations, notably England and Sweden, these various wealth and income taxes have become unusually important. Not only do they tap economic surplus, but their impact and incidence is well established. They cannot be shifted and hence they immediately affect the individuals or institutions taxed. Also they offer unusual possibilities for economic reform, because they permit application of a progressive rate structure levying increased taxes on higher wealth or income. By this method like amounts of net income or wealth bear identical taxes, while larger amounts are taxed at heavier rates.

It is possible through the application of such a rate structure to levy taxes in some measure related to the ability of taxpayers to bear them. But the rates imposed have never been determined on any sound theory which actually considers the relative ability of different persons to pay, for they are not based on investigations of the composition of income or wealth. Thus, two persons with identical incomes may differ widely in their economic circumstances and ability to pay the taxes imposed. This area of tax research is in its infancy, and requires careful exploration in order to establish rates which are economically sound and socially just.

It is frequently charged that progressively high rates reduce the yield of the tax, because they are an open invitation for tax evasion, and because their imposition tends in the long run to dry up the tax source. It was pointed out earlier (see pp. 98, 111) that despite the apparently high levy on the topmost bracket of inheritances or incomes, the effective rate is decidedly less, since an initial exemption is taken before the rates are applied, deductions are permitted by law and different rates are applied to successive increments of wealth or income. There undoubtedly is some point of taxation beyond which a diminishing return is experienced in tax yield. In some instances where an income producer has such control over his activities, as a champion boxer or a movie star has, it may be that he can space his work within the year so as to control the creation of income subject to upper-bracket taxation.

In the recently published Duke University Journal, Law and Contemporary Problems, the case for and against reduction of surtax rates on individual incomes was debated by two able tax experts, Prof. James D. Magee, of New York University, and Prof. Harold M. Groves, of the University of Wisconsin.[19] The thesis of Dr. Magee, in presenting the proposal to reduce the surtax rates, is summed up in his statement that, "In the effort to equalize wealth by heavy surtaxes we have seriously hampered economic recovery by lessening the funds available for investment in equity capital." His conclusion that there is a lack of equity capital is, in view of statistical data

[19] Law and Contemporary Problems, Duke University School of Law, Spring, 1940, pp. 183–193.

offered in this monograph and developed at length in the Hearings on Savings and Investment of the Temporary National Economic Committee, without foundation.[20] Never, even at the bottom of the depression, has there been any lack of capital seeking investment. Rather, all during this period there has been an excess of idle funds and a dearth of investment opportunities. The conservative explanation is that this lack of investment opportunities is due to lack of confidence. It seems much more likely to be caused by inability to see a chance for profit.

Dr. Magee points out that tax-exempt investments have offered unusual inducements to those possessed of wealth, because of the high surtax rates on other types of investments. This is probably true, but it in no sense proves that high surtaxes lower the supply of equity capital. What it does show is that tax-exempt Government bonds prove exceptionally attractive to investors with vast surpluses not easily or safely invested during prolonged general economic depression. The remedy lies in removing the exemption, rather than in lowering income-tax rates.

Dr. Groves dismisses the argument that high surtaxes discourage new bus ness ventures, saying in part:

> There is no evidence that the productive equipment of our economic system is inadequate to supply consumers' orders. We need not build new equipment just for its own sake. * * * The overwhelming need is more essentials for consumers who cannot afford them. There is no reason to believe that a greater supply of capital would solve this problem. A greater demand for it would help, but the sound stimulus for demand would be an indication that consumers' orders will soon encounter an inadequate source of supply.
>
> But it is said that it is profits and the margin of profits which make the economic system go. Of course, the high surtaxes are not usually levied on profits (most of which take the form of corporate earnings) but it is said that the former affect the latter indirectly. Certainly business profits were greatly improved in 1937 and again in 1939. If the theory that good profits insure future prosperity were tenable, the improvement should have led with all sureness to a further stimulation of business. Undoubtedly, business confidence is an important element in economic recovery. But the absence of confidence may not be caused entirely by the lack of adequate current profits. The diffidence may not be mainly a matter of governmental policy at all. It may be due to doubts about the future consumer demand, or the maintenance of peace, or the stability of the economic system itself. Reducing surtaxes would not do much to counteract most of these causes of diffidence, and it might positively encourage some of them.[21]

Most economic effort is not easily regulated, and it is doubtful whether any considerable part of economic endeavor is governed, although it may be influenced, by what its tax effect will be. This is particularly true with the investments and earnings of large fortunes, which are mostly hereditary in character. Here, unusual regard is had for safety of the investments and steady, regular returns, rather than differing tax effects. The proportion of large fortunes devoted to "risky" speculations is comparatively small, so that sharp fluctuations in incomes derived from such sources are normally not prominent. There is little evidence to support the view that successive yearly changes in tax laws have had any pronounced effect on the year-by-year investment structure of such fortunes.[22] Rather, general economic conditions are probably the dominant factors

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[20] Hearings before the Temporary National Economic Committee, Part 9, 1939.

[21] *Ibid.*, pp. 192–193.

[22] The writer has had occasion to examine the portfolios of a number of large fortunes and has checked his observations with prominent investment brokers who concur in this statement.

determining the number and amount of large incomes available for taxation. For statistical proof of this situation, the effect of different tax rates in widely separated periods of time would have to be compared. Such a study, based on actual income-tax returns, should be made to clarify this and other controversial issues concerning the taxation of large incomes and fortunes.

Of late, serious attempts have been made to reform the tax structure, harmonizing the net income, gift, and estate taxes and rates to secure the effect desired from these levies. More will be said of this procedure later, but it is sufficient here to point out that a progressive rate structure cannot limit the growth of large fortunes, or the concentration of great wealth in a few hands, unless it is bolstered and protected by law and administrative procedure enabling the principle of rate progression to operate fully. Our laws have never achieved this, and, despite the reforms made, the full effect of progressive taxation has never been felt.

TAX EVASION AND AVOIDANCE

Evasion of taxes is a technical term describing the illegal failure to report taxable sources, or the deliberate evasion of tax collection. Avoidance of taxes is the effort by the taxpayers to take advantage of loopholes or legal gaps in the statutes to avoid the full impact of taxes. Both are quite generally practiced, depriving the Government of considerable revenue, besides seriously impairing and at times greatly distorting the tax system itself. For, no matter how admirable a system has been enacted into law, its effect is lost if its provisions are evaded, legally or illegally. Any analysis of the social-economic effects of the revenue system, therefore, requires some discussion of tax evasion and avoidance.

Evasion and avoidance of tax responsibilities had become so widespread by 1937 that the President asked Congress for a joint committee to investigate this aggravating problem. The resulting reports startled Congress into action, plugging loopholes, and created pronounced public disapproval of those who sought to evade the intent of the tax laws.[23]

The Secretary of the Treasury informed the committee that 2,800 field agents of the tax divisions of the Government are pitted in a most unequal contest against more than 45,000 attorneys and tax accountants engaged in aiding clients with their tax reports. He said:

> The most resourceful brains of the legal world are engaged actively in trying to avoid taxes for their clients. Among these are men who received their early training from the Government, and who use the skill they acquired in that service against the younger men who take their places. * * *
>
> The ordinarily accepted standard by which many wealthy taxpayers judge the efficiency of the tax attorney is the amount that he can save them in taxes. The most ingenious attorney, therefore, becomes the most successful and the most sought after. He feels that his sole duty is toward his client. If he is honest, he will not condone perjury, but he feels little moral or social responsibility to the Government. Therefore, if he can invent a new scheme for circumventing the intent of the tax laws, which will be upheld by the courts, he is well within the ethics of his profession regardless of the unfortunate effect that such a scheme will have upon the general application of such laws.[24]

An examination of personal income-tax returns by the Treasury Department revealed tax evasions and avoidance amounting to millions of dollars. Ten different groups of methods were shown, as follows:

1. Setting up foreign personal holding companies in the Bahamas, Panama, Newfoundland, etc., where taxes are low and corporation laws lax.
2. Obtaining spurious deductions for interest from insurance policy loans in foreign life insurance companies which were created for the purpose of tax avoidance:
3. Use of domestic personal holding companies to benefit by the reduced rates effective in 1936.

[23] Hearings before the Joint Committee on Tax Evasion and Avoidance, 75th Cong., 1st sess., 1937.
[24] Ibid., pt. I, pp. 9–10.

4. Incorporating yachts and personal estates, turning over to them securities with income sufficient to cover their operations, which would otherwise not be deductible from income.

5. The artful use of family trust and personal holding-company loans to obtain deductions for interest and losses not really incurred for business purposes as intended by law.

6. Creating multiple trusts for relatives and dependents. This scheme splits the income in two or more parts, obtaining lower tax rates, while retaining control of the income in the trustee.

7. The creation of family partnerships solely in order to split the income and reduce the rates applied to it.

8. Use of percentage depletion by companies engaged in mining and petroleum production, permitting deductions of a percentage of gross income to cover depletion of their mines and wells.

9. Filing of separate returns by husbands and wives in the eight States which have community property laws, affording residents of these States lower tax rates than those of other States.

10. Establishment of pension trusts for high salaried officers of corporations, payments of which are exempted from taxation.

Legislation followed this investigation, stopping some of the more glaring, though not necessarily the largest, methods of evasion. The personal holding company device, whether foreign or domestic, has been brought under substantial control and its special merit as a means of avoiding taxation eliminated. But multiple trust advantages have been destroyed only in part, and the division of income among members of the same family for tax avoidance purposes still plagues the Government revenue collectors.

The irony of the situation is that the majority of taxpayers, those of small incomes, cannot afford to pay the legal talent needed to profit from these loopholes, but it frequently pays a wealthy person to employ skillful tax attorneys to stretch the law or cut around some of its provisions in an effort to escape taxation. The Bureau of Internal Revenue handles over 6,000,000 tax returns a year, yet its investigating and clerical force is able to audit carefully only about 500,000 of them. The possibility of escaping detection, or of securing favorable adjustments either through litigation or settlement with the Treasury Department offers large taxpayers special inducements to seek to escape the full impact of the tax laws. The costs of collection are so great, and the litigation on involved cases so prolonged, that the Government seeks, if possible, to adjust tax claims and secure settlements out of court.[25] Consequently, it proceeds only against the most serious offenders and then only when its chances of success are especially good.

While the attempts to adjust personal income, estates, and gift taxes so that, combined, they will prevent evasion, and actually result in a single progressive tax structure affecting incomes and wealth, have been well aimed, their achievements are by no means entirely satisfactory. Increasingly sound administration and growing cooperation between tax-collecting groups have done much to prevent evasion. But there are still loopholes in every tax which mitigate

[25] Thus Gustavus Myers in The Ending of Hereditary American Fortunes, pp. 356–358, points out that the tax litigation over the settlement of the Viscount William Astor estate lasted from 1919 to 1939, or 20 years.

their combined usefulness in producing revenue out of surplus funds, or in curbing the continued excessive growth of large fortunes.

The constitutionality of taxes on gifts in contemplation of death still remains doubtful, and the proofs of such a condition are still dubious. The extent to which the Government has been involved in suits over the application of the gift and estates taxes is indicated by Justice Stone in his recent book.[26] Of 102 cases involving the question of the transfer by gift in contemplation of death, 20 cases covering $4,250,000 were decided in favor of the Government's contention; in 3 it was partially successful, but in 78 cases involving $120,000,000 it failed; and in 1 case the jury disagreed. In 56 of the 78 cases which the Government lost, the gifts were made within the two-year period before death, but in 22 cases the gifts were made more than two years before the donor died.

The practice of transfers of wealth through continuous trusts has by no means abated, and is being advocated by banks and other respectable financial institutions.[27]

Groves summarizes the varying applications of trusts as follows:[28]

Nature of trust	Treatment under	
	Federal law	Most State laws
Revocable and immediate benefit to settlor	Taxable under estates tax	Taxable under inheritance tax.
Revocable but immediate benefit to beneficiary	Taxable	Not taxable.
Irrevocable, but immediate benefit to settlor	do	Taxable.
Irrevocable, and immediate benefit to beneficiary	Not taxable	Not taxable.

An excellent summary of the problems of tax avoidance in the personal income-tax field has just appeared,[29] in which the masterly studies of Mr. Randolph Paul are quoted repeatedly. He comes to four general conclusions about tax avoidance:

First, a tax lawyer must be a skeptic, reading between the lines of the statutes to find the overtones rather than only the strict wording of the statute.

Second, tax avoidance in some cases is still legitimate, but permissible avoidance is diminishing, and is likely to continue to do so. Also, nonpermissible avoidance is becoming more expensive and also is decreasing.

Third, there is no equitable basis for division of income within a family as a tax-saving device. Husbands, wives, and minor children living together should file a composite return.

Fourth, the Treasury's attitude should be changed, to escape the argument that since the Treasury takes advantage of every technicality to collect more taxes, the taxpayer is also justified in trying to use such technicalities to escape taxation.

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[26] Harlan Fiske Stone, Public Control of Business, Howell, Soskin, New York, 1940, pp. 273–285.

[27] Gustavus Myers, op. cit., pp. 355–356. Thus, a pamphlet circulated by a leading bank-trust company in New York in 1939 said, "When a will is filed for probate it becomes a public document that anyone can see. The terms of the will are often reported in the press. Experience shows that there is much less publicity with respect to a trust agreement." Recommending a "living trust" as the best form of passing on wealth to heirs, the bank holds forth this assurance, "If the trust is not made in contemplation of death, the property is exempt from all such taxes on his death, and generally on the deaths of successive beneficiaries for so long as the trust lasts."

[28] Groves, op. cit., p. 265.

[29] Harry J. Rudick, The Problem of Personal Income Tax Avoidance, Law and Contemporary Problems, School of Law, Duke University, Spring, 1940, pp. 242–265.

The filing of separate personal income-tax returns in certain States; the operation of community tax laws, which reduce the effect of inheritance taxes in some States, the fact that gift tax rates are still considerably lower than estate tax rates; the use of trusts; the migration of elderly persons to fix domiciles in low-tax States; the difficulties of determining contemplation of death in the transfer of ownership of wealth; and the absence of an adequate undistributed profits tax—all these combine to militate against the effectiveness of progressive forms of taxation in attaining a higher measure of tax justice and a more equitable and economic redistribution of wealth in the United States.

TAX EXEMPTIONS

A most reprehensible form of tax favoritism benefiting the wealthy, who need such favors least of any group in the population, is the issuance of tax-exempt Government securities.

Paul Studenski, tax consultant for various State and Federal Government agencies, and professor of public finance at New York University, appearing before the Senate Committee on Taxation of Governmental Securities and Salaries in 1939, said:

> The paramount fiscal issue * * * before the committee, in my opinion, is the preservation in our tax system of the democratic principle of taxation of ability to pay. The greater part of our tax system tends to be regressive in nature; that is, to bear more heavily on the people of small means than on those of larger means. The only segment of our tax system based on the principle of ability to pay is that represented by our income and inheritance taxes. Although these taxes supply only 14 percent of the entire revenues of the country at this moment, their importance is far greater than is indicated by this proportion; they add equity to our tax system as a whole. This is their prime significance. It is exceedingly important, therefore, that these taxes be protected against any possible impairment which might interfere with their effective operation * * *. Tax avoidance undermines the integrity of our tax system and the morale of our taxpayers. We cannot profess to be taxing in accordance with ability to pay while we are offering a wide loophole to our wealthy citizens to avoid the application of this principle of investing some of their wealth in wholly exempt securities.[30]

Increased resistance to taxation, the depressed earnings during the past decade of so many citizens, and the requirements of governmental bodies for larger funds have built up a deficit spending program which has greatly increased the dependence of all levels of government on borrowings. Tax-exempt securities, long used to help defray the costs of government, have increasingly gained favor among wealthy persons who possessed large uninvested surpluses, and many others who sought to defer payment for government services. By 1937, the total of such tax-exempt issues exceeded $65,000,000,000, distributed as indicated in table 57, charts 38 and 39. The distribution among the several political divisions of government was as follows:

Political unit	Amount (billions)	Percentage
State and local governments	$19.3	29.4
Federal Government and instrumentalities:		
Wholly exempt	17.3	26.4
Partially exempt	29.0	44.2

The tax-exempt securities of local, State, and Federal Governments are bonds issued against these several governments, certain Liberty bonds, Treasury notes, and certificates of indebtedness. Federal instrumentalities, such as the corporations set up under various congressional acts, also issue tax-exempt securities. Certain Liberty

[30] Paul Studenski, Hearings before the Special Committee on Taxation of Governmental Securities and Salaries, Senate, 76th Cong., 1st sess., Washington, 1939, p. 553.

bonds, 4 and 4½ percent bonds, United States savings bonds, Treasury bonds, and the issues of some Federal instrumentalities are partially exempt from taxation..

TABLE 57.—*Estimated distribution of tax-exempt securities by classes of holders, June 30, 1937*

[Dollar figures in billions]

Holders of securities	Wholly exempt						Partially exempt		Total	
	State and local		Federal instrumentalities		U. S. Government		U. S. Government and Federal instrumentalities		Amount	Percent
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent		
Governments, their agencies, trust funds, investment funds, Federal Reserve banks	$4.3	22.3	$0.8	36.4	$3.5	23.2	$6.5	22.4	$15.1	23.0
Active banks, excluding mutual savings banks	2.8	14.6	.3	13.6	5.9	39.1	8.7	30.0	17.7	27.0
Insurance companies	1.8	9.3			1.3	8.6	3.7	12.8	6.8	10.4
Other corporations	.8	4.2	.1	4.5	1.1	7.2	.8	2.8	2.8	4.3
Mutual savings banks	.8	4.2			.3	2.0	2.1	7.2	3.2	4.8
Other tax-exempt institutions	.5	2.3			.1	.7	.4	1.4	1.0	1.5
Individuals	8.3	43.1	1.0	45.5	2.9	19.2	6.8	23.4	19.0	29.0
Total	19.3	100.0	2.2	100.0	15.1	100.0	29.0	100.0	65.6	100.0

Source: Adapted from Hearings before Special Committee on Taxation of Governmental Securities and Salaries, Senate, 76th Cong., 1st sess., 1939, p. 14.

Individuals hold an estimated $19,000,000,000 of all such issues, or 29 percent. These represent investments made by persons with surpluses over the needs of living. According to the spending patterns of the American people, 18 percent of the consumer units, with incomes in excess of $2,000 a year, made more than 93 percent of all savings; the 2.4 percent with incomes of $5,000 or more accounted for 63 percent of all savings.[31] While small savers do find tax advantages in the savings bonds issued by the Federal Government, the usual Government security is of too large denomination to be readily available to persons of small means. In terms of a cross section of the income groups in the United States, it is obvious that tax-exempt securities owned by individuals are held largely by those relatively few with substantial wealth.

Whether tax-exempt securities are sought more by people of unusually large wealth than by middle-class savers is another question. Prof. Harley Lutz, urging the continued issuance of tax-exempt securities, told the Senate investigating committee that such was not the case, that, "The Treasury's assertions that wealthy people are loading their estates with tax-exempt securities are erroneous.[32] He offered as supporting evidence of his position a study of investment items in estates tax returns filed for the years 1926–36, inclusive.

[31] National Resources Committee, Consumer Expenditures in the United States, Washington, 1939, p. 48. See also pp. 310-11 of this study.

[32] Hearings before the Special Committee on Taxation of Governmental Securities and Salaries, *op. cit.*, pp. 93, 117, and appendix D, pp. 171-172.

CHART 38

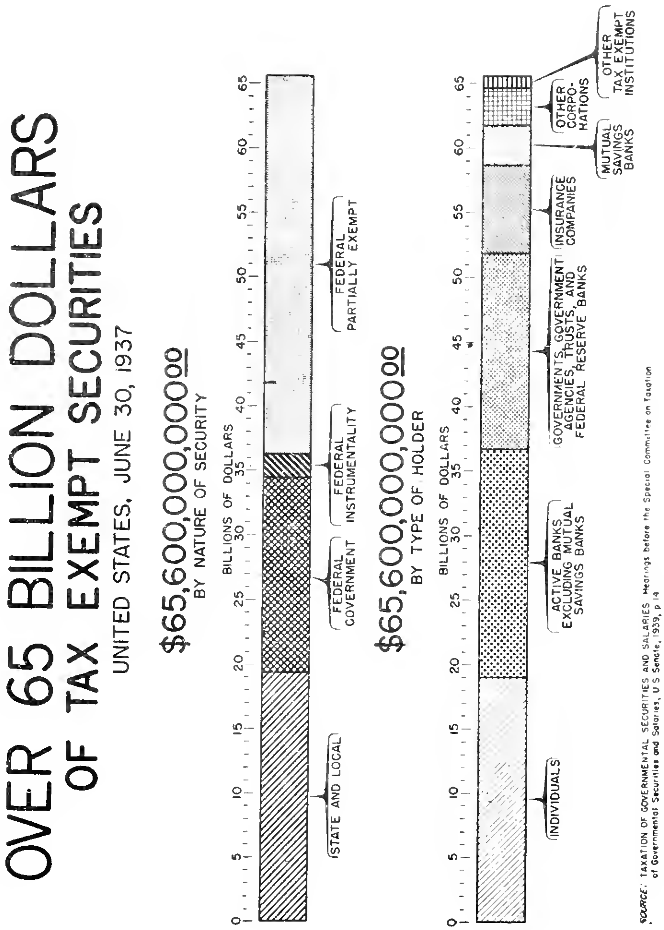
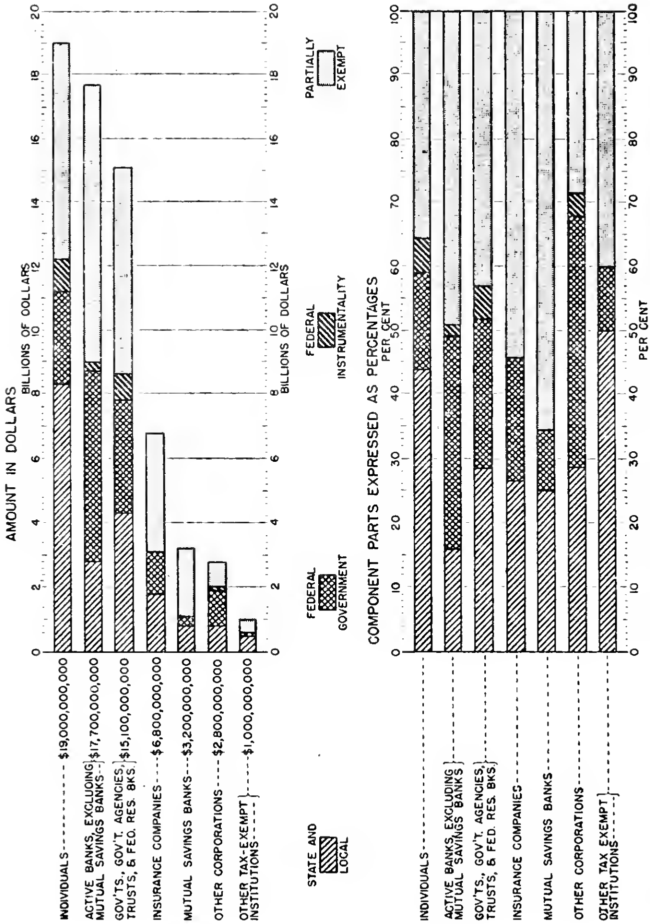

OVER 65 BILLION DOLLARS
OF TAX EXEMPT SECURITIES
UNITED STATES, JUNE 30, 1937
$65,600,000,000
BY NATURE OF SECURITY
BILLIONS OF DOLLARS
0 5 10 15 20 25 30 35 40 45 50 55 60 65
STATE AND LOCAL
FEDERAL GOVERNMENT
FEDERAL INSTRUMENTALITY
FEDERAL PARTIALLY EXEMPT
$65,600,000,000
BY TYPE OF HOLDER
BILLIONS OF DOLLARS
0 5 10 15 20 25 30 35 40 45 50 55 60 65
INDIVIDUALS
ACTIVE BANKS EXCLUDING MUTUAL SAVINGS BANKS
GOVERNMENTS, GOVERNMENT AGENCIES, TRUSTS, AND FEDERAL RESERVE BANKS
INSURANCE COMPANIES
MUTUAL SAVINGS BANKS
OTHER CORPO-RATIONS
OTHER TAX EXEMPT INSTITUTIONS
SOURCE: TAXATION OF GOVERNMENTAL SECURITIES AND SALARIES Hearings before the Special Committee on Taxation of Governmental Securities and Salaries, U S Senate, 1939, p 14

CHART 39

DISTRIBUTION OF TAX EXEMPT SECURITIES

NATURE OF SECURITY BY TYPE OF HOLDER

UNITED STATES, JUNE 30, 1937



SOURCE: TAXATION OF GOVERNMENTAL SECURITIES AND SALARIES Hearings before the Special Committee on Taxation of Governmental Securities and Salaries, U S Senate, 1939, p. 14.

These data have been reassembled in table 58, charts 40 and 41 in this treatise. They show nothing concerning trends, for as Dr. Lutz presented the data, they simply lump the situation for the 11 years; but they do show the location of tax-exempt securities in estates of various sizes. Far from supporting Dr. Lutz' position, they refute it and corroborate the position of the Treasury.

TABLE 58.—*Amounts of certain investments in estate-tax returns, 1926–36 108,503 estates, by size of net estate*

[Dollar figures in thousands]

Item	No net taxable estate		Under $50		$50–$100	
	Amount	Percent	Amount	Percent	Amount	Percent
Returns	50,000	46.1	21,276	19.6	10,349	9.5
Federal bonds	$131,992	10.4	$108,310	8.5	$78,637	6.1
Wholly exempt	22,285	3.7	17,749	2.9	17,123	2.8
Partially exempt	109,707	16.8	90,561	13.7	61,514	9.3
State and local bonds	75,947	4.2	68,491	3.7	54,870	3.0
All other bonds	292,094	12.3	279,519	11.8	205,526	8.7
Capital stock	1,128,026	8.2	972,873	7.1	757,557	5.5

Item	$100–$1,000		Over $1,000		Total	
	Amount	Percent	Amount	Percent	Amount	Percent
Returns	23,824	22.0	3,054	2.8	108,503	100.0
Federal bonds	$451,157	35.3	$509,053	39.8	$1,279,149	100.0
Wholly exempt	172,703	27.8	389,997	62.9	619,857	100.0
Partially exempt	278,454	42.2	119,056	18.1	659,292	100.0
State and local bonds	594,012	32.4	1,038,704	56.7	1,832,024	100.0
All other bonds	1,081,419	45.7	507,976	21.5	2,366,534	100.0
Capital stock	5,081,805	36.9	5,844,838	42.4	13,785,099	100.0

Source: Adapted from report by Harley L. Lutz in Hearings before the Special Senate on Taxation of Governmental Securities and Salaries, U. S. Senate, 76th Cong., 1st sess., 1939, pp. 171–172.

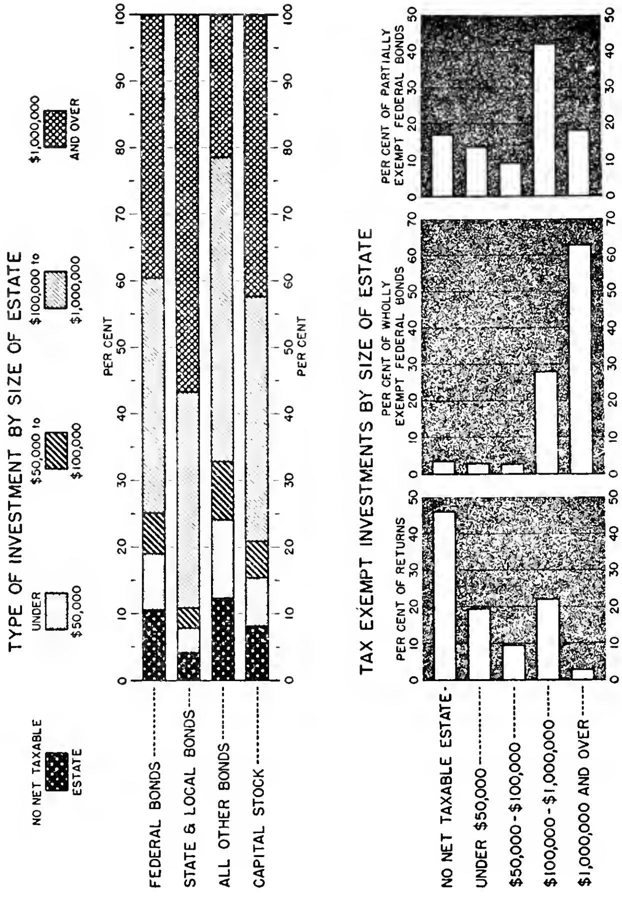
The extent of the concentration of ownership of tax-exempt securities can be seen in the following display of estates of $100,000 or more:

Item	Securities held by estates of	
	$100,000 or more	$1,000,000 or more
Percentage of all estates	24.8	2.8
Percentage of securities held	74.9	39.7
Federal bonds:		
Wholly exempt	90.7	62.8
Partially exempt	60.1	18.0
State and local bonds	89.2	56.8
All other bonds	67.2	21.5
Capital stocks	79.2	42.4

CHART 40

TAX RETURNS ON 108,503 ESTATES IN THE UNITED STATES

AGGREGATE 1926-1936

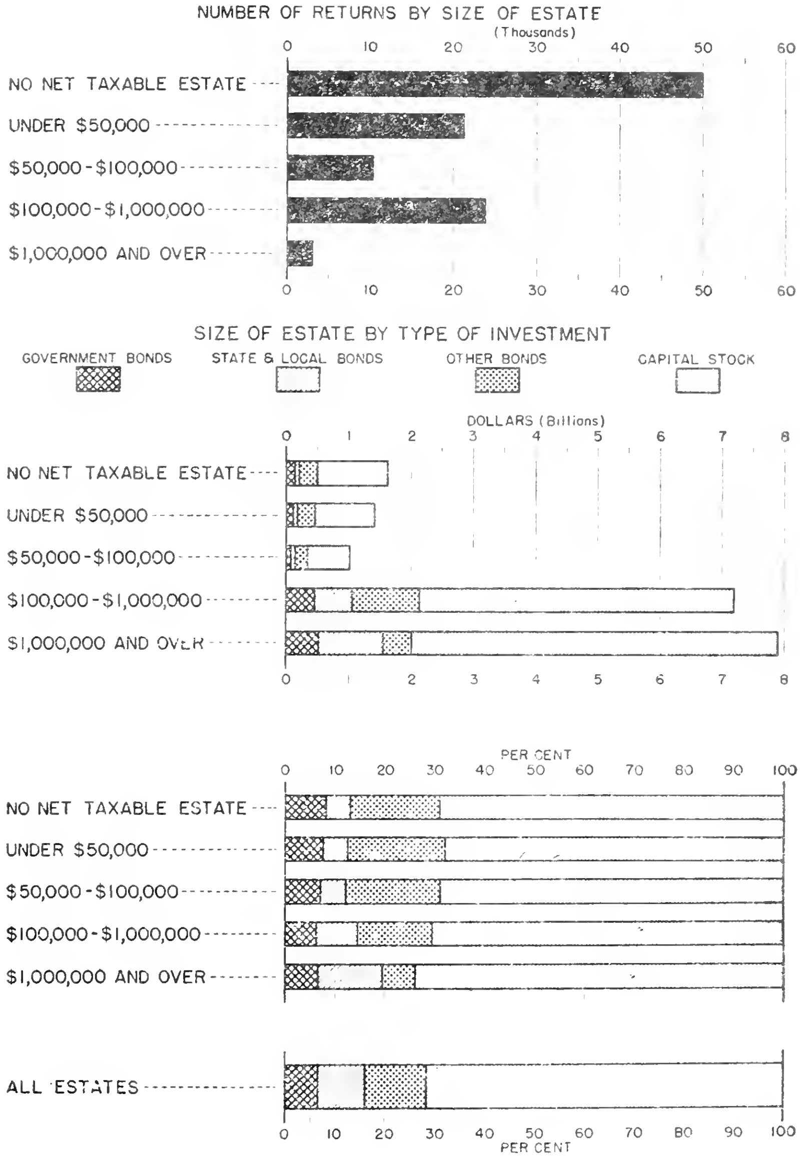


SOURCE: TREASURY STATISTICS OF INCOME, Reported by Harley Lutz; Senate Report on Government Securities and Salaries, Washington, D.C., 1939, pp. 171-172.

CHART 41

TAX RETURNS ON 108,503 ESTATES IN THE UNITED STATES

AGGREGATE 1926-1936



SOURCE: TREASURY STATISTICS OF INCOME, Reported by [illegible] Report on Government Securities and Salaries, Washington, D.C., 1939, p. [illegible] 72

Little further argument is needed to prove that large estates hold most of the tax-exempt securities issued, and that they hold proportionately more of such securities than of tax-bearing bonds and stocks (wholly exempt Federal bonds, 90.7; tax-exempt State and local bonds 89.2; other bonds 67.2; capital stocks 79.2).

Even if it is argued that an estate of $100,000 is not a "large estate," the figures for estates over $1,000,000 bear out the same contention. Slightly less than 3 percent of all probated estates are in this class. They hold 62.8 percent of wholly exempt Federal bonds, 56.8 percent of all State and local bonds; only 21.5 percent of taxable private bonds; and 42.4 percent of capital stocks. Our wealthy citizens have found it decidedly to their advantage to buy and hold tax-exempt Government securities. Because of their immense fortunes, they can afford to sacrifice, in part of their holdings, high interest rates and speculative returns for assured incomes and safety.[33]

Persons with estates under $50,000 cannot afford to invest in low-interest-bearing tax securities, regardless of their added features of tax exemption and guarantee by the Government. While 19.6 percent of all probated estates are less than $50,000, they owned only 2.9 percent of the wholly exempt Federal securities, and 3.7 percent of the tax-exempt State and local bonds. But they had 11.8 percent of all other bonds and 7.1 percent of capital stocks. These estates are composed largely of tangible and real property, rather than of stocks and bonds. The stock and bond equities of modern business and the securities issued by governments are both owned primarily by that small group of the population with estates of $100,000 or more.

Tax-exempt securities have become increasingly attractive to banks and financial institutions whose caution in business ventures seeks the safety of Government guarantees rather than the gains of business enterprise. As the wealth of the Nation is lodged increasingly in fewer hands, and as it is set up in trusts and other forms to be passed on from one family generation to another, so the financial institutions intrusted with these great investment funds become increasingly conservative.

They are under no such obligation to return large gains to their stockholders and depositors as they were in an earlier and more venturesome age when the "get rich quick" spirit permeated the business world. Not being the masters of business which the public had been led to believe up to 1929, and rapidly reduced to the status of custodians of funds rather than business risk takers and investment counselors, many bankers have become very cautious. The chaotic and fast-moving events of the past two decades have found them increasingly investing their reserves in safe, low-interest-bearing, tax-exempt Government securities. Thus, by 1937, active banks held 27 percent of all tax-exempt Government issues; 39 percent of all wholly exempt Federal bonds; 30 percent of all partially exempt Federal securities; with lesser amounts of State and local securities. To the extent that active banks are loaded with long-term, tax-exempt Government securities, they fail to fulfill their essential purposes as financial

[33] In the Duke University Law School's symposium on taxation mentioned earlier, Paul V. Betters uses the Lutz table on investments as revealed by estates, coming to the same conclusion as did Dr. Lutz. The same faulty statistical treatment led the author to remark, "These figures hardly bear out the constantly repeated plaint of Treasury officials that the wealthy are escaping taxes by sinking their funds in tax-exempt bonds, and also shed considerable light on the consistent failure of Treasury spokesmen to offer tangible statistics, rather than generalities, in support of their arguments. * * * It is simply not the fact that wealthy people are loading their estates with tax-exempt bonds in order to escape their just share of income taxes." Federal Income and Estate Taxation, op. cit., pp. 224–225.

institutions, and limit their usefulness as business investment agents. The whole economy, therefore, suffers from their nonperformance of this function, although investment in Government bonds is preferable to hoarding.

Insurance companies entered the field of tax-exempt securities on a large scale during the depression, when their mortgage securities, which had proved so lucrative during the 1920's, became a drug on the market. By 1937, they owned 10.4 percent of all tax-exempt Government issues.

The Under Secretary of the Treasury in his testimony before the Senate committee outlined the following arguments against the issuance of tax-exempt Government securities.

Such tax-exemption favors the wealthy by breaking down the progressive character of the income tax-rate structure. Thus, the witness pointed out that for a married man with a net income of $500,000, a "3 percent fully tax-exempt security affords the same return after Federal income tax as a taxable security yielding 10.71 percent." Contrast this situation with the man with an income of $5,000. In his case a 3 percent tax-exempt security is the equivalent of only a 3.2 percent taxable security.[34]

The issues of tax-exempt securities have reached an amount in excess of the demand for them on the part of individuals in high income brackets. But the unusual advantage of safety possessed by such Government issues makes them salable to financial institutions which are not particularly benefited by their tax-exempt feature. They would, in all probability, continue to buy Government securities even without the exemption. To the extent, however, that the exemption is an additional attraction, it tends to retard the investment of capital in venturesome enterprise. The accumulation of institutional capital during the past several decades, and the demand for safety in the investment of such capital naturally result in increasing purchases of Government securities. Here is a normal market for such securities, and one which does not require the incentive of tax exemption. Also the removal of this incentive would probably increase the interest of individual investors of great wealth in venture enterprises.

The Treasury contended that the discontinuance of tax exemption would materially increase Government revenues, but that even without such an increase the step should be taken for the reasons just cited. The opposing side argued hotly that this would add $113,000,000 a year to the costs of State and local governments.[35] Recriminations between experts spotted the hearings, indicating ultimately only that there is little conclusive evidence of the probable effect of the removal of the exemption. Roy Blough, Chief of the Division of Tax Research of the Treasury, summed up that Department's position in the following statement:

The existence of 100,000 taxpayers, who reported about $4,000,000,000 of net income or more than one-fourth of the total income reported on individual income tax returns, and who are in position to gain by tax exemption—and have gained

[34] Statement of John W. Hanes, Under Secretary of the Treasury, before the Special Committee on Taxation of Governmental Securities and Salaries, op. cit., pp. 4-34.

[35] This was the contention of Harley Lutz, and his figures were quoted freely by other witnesses, or used as the basis of their computations. Dr. Paul Studenski took reasonable exception to them on the basis that they would not become operative until all existing tax-exempt securities had matured and been replaced by taxable securities, which would not occur within 15 or 20 years.

an undetermined amount—constitutes a serious threat to the progressiveness of income tax.[36]

Tax exemption is not confined to Government securities. Governmental instrumentalities are untaxed, on the theory that the transaction is simply a pocket-to-pocket affair which adds nothing to the revenue system and complicates Government finance. As government takes over more activities from the private sector of the economy, this exemption may embarrass those local governments which depend largely on such activities for revenue. Conflicts arise out of this immunity, and friction increases between taxing jurisdictions. Controversies over the application of such State levies as the sales tax have increasingly occupied the attention of tax experts, and the end is not yet in sight. Whether publicly operated utilities should bear taxes is still an unsettled issue in some localities.

Among the principal beneficiaries of tax exemption are those institutions which, though privately owned, are operated for nonprofit purposes, such as educational, philanthropic, and religious groups. Long-established custom has exempted from taxation the properties used directly for such purposes. In some places where these institutions are located, the result is a greatly increased burden on local taxpayers. Thus, in a certain small town in the West, a religious body owns extensive properties within the town limits, whose exemption from taxation adds over a third to the tax bill of every taxpaying citizen of the community.

Exemption of real property from taxation is quite extensive. Jensen reported that $20,506,000,000, or 11.6 percent of the real property of the United States in 1922, was exempt from taxation. The range was from 25.8 percent of the property located in the Mountain States to 6.6 percent of that in the West North Central States.[37] In table 59 more recent data on tax-exempt land and improvements are shown.

TABLE 59.—*Real property and improvements exempt from taxation, 1923–37*

[Dollar figures in millions]

Year	Amount	Percentage increase	Year	Amount	Percentage increase
1923	$20,919		1933	$25,192	1.6
1925	21,117	0.9	1935	25,079	−.4
1927	22,751	7.7	1937	[1] 26,301	4.9
1929	24,518	7.8	1937 over 1923	5,382	25.7
1931	24,791	1.1			

[1] Preliminary.

Source: Adapted from National Industrial Conference Board, Enterprise and Social Progress, 1939, p. 60.

The value of such tax-exempt property has grown by 25.7 percent from 1923 to 1937. More significant still is the fact that it increased even during the depression when property values generally were declining. A higher value of real property was exempt from taxation in 1937 than at any time during the previous 15 years.

[36] Roy Blough in Hearings Before the Special Committee on Taxation of Governmental Securities and Salaries, op. cit., p. 584.

[37] Jens P. Jensen, Property Taxation in the United States, University of Chicago Press, Chicago, 1931. p. 126.

A practice which has become quite popular in certain parts of the country of late is that of offering tax exemptions and other inducements to industries if they will locate there. Even when these proposals are legal, being local in character and not part of a national economic plan, they represent favoritism extended to certain businesses over others in the same area. Furthermore, they tend to disrupt industrial conditions in widely separated parts of the country. Such special inducements to industry do not aid the economy in the long run, but tend to complicate the problem of devising an equitable tax system for the Nation and its subdivisions.

Considerably more information is needed before any final recommendations regarding tax exemptions can be made. Many tax agencies do not now compile such data, and it is impossible to secure an accurate basis for sound judgments. There are many ramifications of the problem, but the size of the tax burden and the increasing demand for Government services make it imperative that every legitimate tax source contribute its just share to the cost of Government.

DOES THE REVENUE SYSTEM RETARD RECOVERY?

FEAR, LOST INCENTIVE, DANGER TO INVESTMENT FUNDS

Extreme critics of the present revenue system declare that capital is on strike against the imposition of new and heavier taxes; the frequent and unpredictable changes in the Federal revenue laws throw businessmen into confusion; the growing public debt menaces the economic structure; business profits are scarce and risk capital has gone into hiding because substantial returns are not in sight, or are immediately taken over by the Government through oppressive taxes. The incentive to lay by a fortune for one's children is presumably killed by the high estate- and gift-tax rates which whittle down the accumulations of a lifetime so that there is little left to pass on. Punitive, prohibitive, and regulatory taxes have been imposed in an ever-widening circle to affect more and more of the business system. The cost and intricacy of the accounts required by the Government not only impose a heavy burden on private business, but tax the time and capacity of businessmen who seek to obey the law. All these—and more—are the doleful plaints of those who object to the present revenue system.

Widespread resistance to taxation, along with the belief that tax payments do not benefit the taxpayer but only enrich grafters and politicians who render no service to society, always afford a fertile field for propaganda for those to whom a low tax bill, statutes full of loopholes, and weak business regulation mean larger profits.

As the revenue system becomes perfected, the chances for escaping taxation grow fewer, and as the need for revenue increases, the levies become heavier. With these forces at work, and particularly in time of depression, it is only natural that those opposed to further taxes should try to play upon the prejudices of the people for support.

During the worst years of the depression, the Federal Government widened the base of taxation in its effort to obtain much-needed funds, imposing, as has been indicated earlier, a whole series of excise and occupation taxes which brought an increasing number of businesses and consumers into direct contact with the Federal tax collectors. The individual income and corporation tax structure was also substantially revised; not only were the rates raised, but loopholes were closed. New taxes were also imposed. Among them was the undistributed-profits tax, passed in 1936 in an attempt to get at the accumulations of business institutions which were not passed on in dividends to their stockholders. While the yield of this tax was never great, it was seized upon as a rallying point for those who considered the burden of taxes oppressive. They held that this tax prevented the accumulation of reserves and penalized small or new enterprises. The hue and cry raised about it was calculated to convince the man in the street that the Federal Government had run amuck in a mad desire to ruin business through taxation. The tax became virtually

inoperative in 1938, and was repealed in 1939, but has since been referred to repeatedly as a horrible example of governmental interference with business.

During May and June 1939, the Ways and Means Committee of the House of Representatives held hearings on tax irritants and restraints, at which representatives of business organizations testified. The Under Secretary of the Treasury also invited business groups and individual taxpayers to present their cases before a special committee of the Treasury which held periodic meetings during the fall of that year, and the response was considerable. There is consequently a body of information concerning the attitude of business groups and individuals who find fault with the present revenue system. It contains much opinion and judgment concerning the effects of the tax system on business recovery, but it offers little objective data evidencing such effects.

Ellsworth C. Alvord, formerly a high-ranking official in the Treasury Department under Secretary Mellon, and now a tax attorney in Washington, appeared as an officer of the United States Chamber of Commerce to present the chamber's program for tax reform.[38] He urged a program including:

> 1. A transition from Government spending to private investment.
> 2. A sound constructive fiscal program for the Federal, State, and local governments.
> 3. A decrease in the demands for Federal assistance.
> 4. A reduction in relief rolls with corresponding increase in private pay rolls.
> 5. A substantial increase in national income.

These objectives are to be attained through:

> 1. Adjustment of tax rates to the point of maximum business activity and hence maximum productivity.
> 2. Removal of tax barriers to private enterprise and investment.
> 3. Assurance of stability and certainty in the revenue system.
> 4. Simplicity and ease of tax administration.
> 5. An effective control of expenditures, so that they may be kept within the revenue yields of a reasonably permanent tax system enacted to carry out the foregoing program.

There is little to question in these general statements. It is only when the specific tax proposals are examined that their direction can be discerned. The United States Chamber of Commerce believes that these worthy objectives can be attained through:

> Reduction in the normal tax rate on corporations, with special credits to reduce the application of the tax on smaller corporations; no undistributed-profits tax; a carry-over of net business losses for 3 years; simplification and easement of the individual capital gains provisions; treatment of long-term gains and losses of corporations as ordinary gains and losses to accord corporations similar treatment with individuals; an annual declaration of capital stock value; permission for affiliated groups to file consolidated returns; exempting intercorporate dividends from taxation, and excluding corporate dividends from individual normal tax; the enactment of fairly permanent revenue law, the basic principles of which are to remain in force for a period of at least 10 years; the reduction of individual surtaxes to the point where they will not discourage private investment and

[38] Hearings before the Ways and Means Committee on Revenue Revision, 76th Cong., 1st sess., Washington, 1939, pp. 73–117.

individual initiative; a substantial reduction in the tax on capital gains; an effective earned-income credit; a revision and simplification of the estate tax laws, including a substantial reduction in the present "confiscatory" rates; a provision for setting aside adequate funds, free of taxation (through insurance or otherwise) for the payment of the estate tax; the repeal of the capital stock and excess-profits taxes as soon as the revenue requirements permit; removal of inequities now existing in the excise tax system; a procedure for the collection of excise taxes comparable to that for the income tax.[39]

Many of the specific items mentioned above should be classed as "irritants," and some have already been removed. The 1939 Revenue Act provided that corporations and individuals might deduct their net operating business losses occurring in 1 year from their profits in the succeeding 2 years. The remaining parts of the undistributed-profits tax were removed from the statutes. Banks and insurance companies with incomes below $25,000 were accorded the same benefits of lower and graduated rates that are permitted other corporations. Corporations were afforded relief by allowing them to deduct their net long-term losses from the year's ordinary income. Corporations were authorized to revise upward their capital stock valuation during each of the next 2 fiscal years. Under older practices where a taxpayer retired a debt by payment of less than its face value, the difference was subject to income taxation. This was changed by the 1939 Revenue Act, which permitted corporations in unsound financial condition to scale down their debts without being subject to the old provision of tax payment on their face value.

But the major proposals for change made by business groups center around modifications in the personal and corporate income and estates taxes. The U. S. Chamber of Commerce has long contended that the levies upon business income are oppressively heavy, resulting in curtailment of profits and investments and retarding economic recovery. On this point Alvord offers some supposed facts to substantiate his claim that:

Many corporations are paying more than a third—in some instances 50 percent—of their net income in taxes. In our opinion this is well above the point of maximum productivity. Attached is a table prepared from registration statements filed with the Securities and Exchange Commission, showing the total taxes paid and their relation to the net incomes of certain groups of corporations. It would seem that further proof is unnecessary.[40]

The data bearing on the corporation tax burden is so scanty that it must be examined with great care in order to throw as much light as possible upon it. The table which Mr. Alvord submitted in his testimony has been reproduced in table 60, in which columns (1), (2), (5), (7), and (8) constitute the data presented by him to the Ways and Means Committee hearing. Columns (3), (4), (6), (9), (10), and (11) have been added from the original sources. They are essential in order to fully answer the points raised by the witness.

[39] Ibid., pp. 102–103.
[40] Ibid., p. 103, and table, p. 111.

TABLE 60.—*Corporation taxes, 1937*

Industry	Number of registrants	Taxes			Net taxable income
		Provision for Federal income tax	Other	Total	
(1)	(2)	(3)	(4)	(5)	(6)
Steel producers	12	$54, 236, 187	$94, 723, 741	$148, 959, 928	$253, 978, 702
Meat packers	5	4, 625, 756	16, 869, 881	21, 495, 637	23, 950, 472
Chain variety stores	10	11, 799, 626	18, 005, 371	29, 804, 997	76, 316, 594
Automobile manufacturers	10	63, 337, 069	89, 529, 197	152, 866, 266	311, 772, 315
Tire and rubber manufacturers	18	6, 356, 294	37, 578, 605	43, 934, 899	33, 534, 737
Agricultural implement manufacturers	10	23, 255, 640	16, 154, 685	39, 410, 325	89, 174, 058
Cigarette manufacturers	6	17, 286, 886	7, 499, 299	24, 786, 185	100, 644, 637
Sugar refiners	14	3, 560, 637	12, 184, 991	15, 745, 628	23, 281, 609
Mail-order houses	6	13, 861, 853	11, 465, 362	25, 327, 215	67, 340, 858
Oil refiners	20	81, 817, 646	141, 763, 756	223, 581, 402	604, 539, 989
Office equipment manufacturers	10	8, 306, 861	6, 656, 971	14, 963, 832	43, 035, 146
Cement manufacturers	8	835, 079	2, 053, 354	2, 888, 433	7, 406, 319
Department stores	31	7, 318, 321	23, 439, 965	30, 758, 286	36, 258, 394
Container and closure manufacturers	11	9, 713, 988	8, 917, 316	18, 631, 304	53, 875, 674
Chain grocery and food stores	13	1, 997, 619	13, 341, 305	15, 338, 924	11, 437, 423
Chemical and fertilizer manufacturers	21	31, 989, 781	23, 148, 513	55, 138, 294	225, 507, 697
Totol	205	340, 299, 243	....	863, 631, 555	1, 965, 054,624

Industry	Net income after taxes	Percent of gross taxes to net income after taxes	Percent of income tax to net taxable income	Gross profits	Percent of gross taxes to gross profits
(1)	(7)	(8)	(9)	(10)	(11)
Steel producers	$199, 742, 515	74. 6	21. 4	$894, 947, 106	16. 6
Meat packers	19, 324, 716	111. 2	19. 3	502, 484, 090	4. 3
Chain variety stores	64, 516, 968	46. 2	15. 5	305, 069, 430	9. 8
Automobile manufacturers	251, 435, 246	60. 8	20. 1	759, 053, 325	20. 1
Tire and rubber manufacturers	27, 178, 443	161. 7	19. 0	266, 549, 519	16. 5
Agricultural implement manufacturers	65, 918, 418	59. 8	26. 1	235, 689, 005	16. 7
Cigarette manufacturers	83, 357, 751	29. 7	17. 2	198, 902, 869	12. 5
Sugar refiners	19, 720, 972	79. 8	15. 3	68, 727, 495	22. 9
Mail-order houses	53, 479, 005	47. 4	20. 6	296 976, 843	8. 5
Oil refiners	522. 722, 343	42. 8	13. 5	2, 030, 939, 391	11. 0
Office equipment manufacturers	34, 728, 285	43. 1	19. 3	145, 885, 332	10. 3
Cement manufacturers	6, 571, 240	44 0	11. 3	30, 302, 235	9. 5
Department stores	28, 940, 073	106. 3	20. 2	332, 075, 475	9. 3
Container and closure manufacturers	44, 161. 686	42. 2	18. 0	138, 046, 937	13. 5
Chain grocery and food stores	9, 439, 804	162. 5	17. 5	212, 185, 626	7. 2
Chemical and fertilizer manufacturers	193, 517, 916	28. 5	14. 2	433, 708, 358	12. 7
Total	1, 624, 755, 381	53. 2	17. 3	6, 851, 543, 036	12. 6

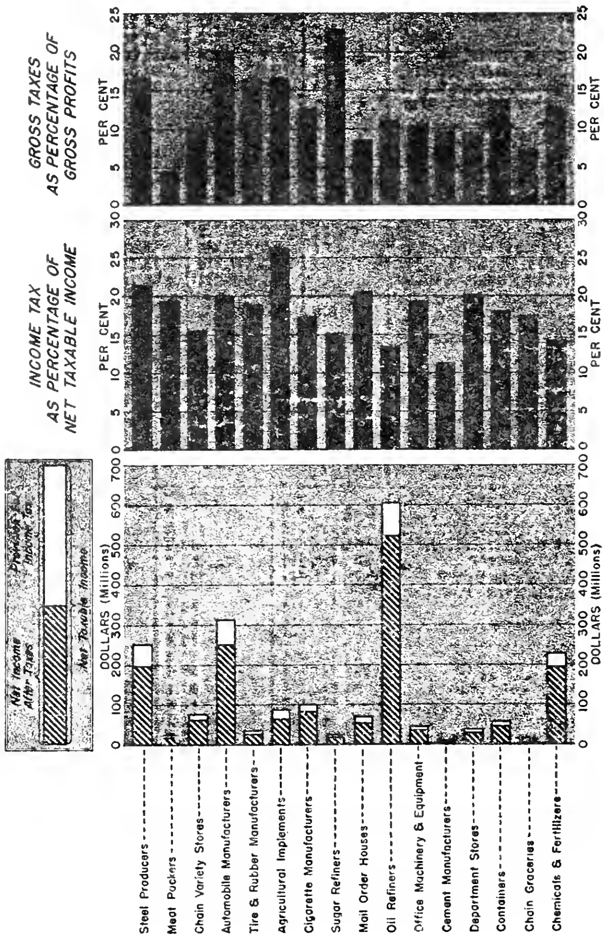
Source: Compiled from W. P. A.—Securities and Exchange Commission Reports on the Census of American Listed Corporations, New York, 1938–39; also for columns (1), (5), (except for "Steel producers"), (7), and (8), statement of Ellsworth C. Alvord in hearings before the House Committee on Ways and Means, 76th Cong., 1st sess., on Revenue Revision, 1939, p. 111.

These data were assembled in the Securities and Exchange Commission study, "Census of American Listed Corporations," which appeared during 1938–39 as a series of reports. They cover items of information furnished by listed corporations to the Securities and Exchange Commission, and represent the bookkeeping accounts of the corporations in question. They comprise income and property taxes, and, contrary to the statement of the witness, in most cases include rather than exclude excise and sales taxes. These listed corporations are large enterprises operating nationally, or even internationally. They are not necessarily typical of American business.

CHART 42

CORPORATION TAXES AND INCOMES

UNITED STATES, 1937



SOURCE: TABLE 60.

Mr. Alvord concluded from these data that, "* * * in a surprisingly large number of instances corporations in this country are paying more than 50 percent of their net incomes in taxes."[41] This he deduces from a reading of column 8, which in his table was erroneously captioned, "Percent of taxes to net income," and which is correctly headed in our table, "Percent of gross taxes to net income after taxes." The distinction is obvious, and important.

Substantially different conclusions are reached from reading the table than those upon which the Chamber of Commerce tax specialist argued for a reduction in corporation income taxation. According to the books kept by the corporations listed, their tax bill in 1936 was as follows:

Item	Amount	Percentage
Provision for income tax	$340, 249, 253	39. 4
Other taxes—property, etc	523, 382, 312	60. 6
Total taxes	863, 631, 565	100. 0

Obviously, it is incorrect to compare a gross tax bill with net income, for gross taxes are related to gross income. In fact, column 4 of the corporation report is captioned, "Taxes (other than Federal income and excess profits) charged to profit and loss as costs." Yet Mr. Alvord combined cost taxes and net income taxes, presuming them to be the total tax bill paid by the corporations, and used the total to ascertain the "percent of taxes to net income." In this way he determined that taxes were 53.2 percent of the net income of the listed corporations, a really heavy burden which he declared was hazardous to stable business conditions.

The relation of gross corporate taxes to gross income is shown in column 11, where not 53.2 percent, but 12.6 percent of gross corporate income goes into taxes. This is the figure which Mr. Alvord should have presented if he wished to show the impact of "total taxes," for in this total are included property, excise, and sales taxes which are to some extent passed along to consumers and do not become a direct charge upon corporate income.

If, on the other hand, he wished to show the relation of taxes to the net income of corporations, he should have ascertained net taxable income (column 6), and the relationship of provisions for income tax payments (column 3) to it. This result appears in column 9 of the table, where the corporation tax directly affecting the dividends of investors is 17.3 percent, and not 53.2 percent as assumed by Mr. Alvord.

The range of income tax burdens on particular industries is from 11.3 percent for cement manufacturers to 26.1 percent for agricultural implement concerns. The topmost levy is far below the 50 percent which the witness testified was burdensome to business.

Moreover, the amounts taken by corporation income taxes, and therefore not distributed to the stockholders of these enterprises, are in addition to sums extracted by the corporations themselves from net earnings, and piled up in the funds set aside for depletion and de-

[41] *Ibid.*, p. 80.

preciation reserves. Such reserves are established on a most generous basis, and include not only actual replacement costs but funds which often take on the character of internal surpluses used later for extensions and improvements.

If the stockholders from whom such sums are withheld own their stocks long enough to receive added earnings as a result of the use of such sums, or if the value of their stocks is thereby increased, management has not treated them unfairly. But for those who dispose of their stocks without realizing such advantages, these internal savings of corporations have no such attractions, and amount to levies on their rightful earnings. Table 60 shows the size of such tax-exempt depreciation and depletion accounts, and compares them to corporation taxes.

The bookkeeping methods of reporting corporations permit a segregation of the accounts into "depreciation and depletion reserves" and "maintenance and repairs." The latter fund is presumably spent to maintain the operating efficiency of the plant and equipment, the former to replace worn-out or obsolete plant and equipment. Combined, these reserves are 77.7 percent greater than total taxes imposed on corporations. Thus, for the year 1937 the corporations listed put aside $896,941,829 in depreciation and depletion reserves and another $754,696,685 for maintenance and repairs. The tax bill paid by the corporations out of net earnings was $366,737,323; while the taxes which they paid but probably passed on to ultimate consumers totaled $557,661,273.

The practice of setting aside depletion and depreciation reserves is not uniform. Cement manufacturers put aside 12.8 percent of their annual gross sales for this purpose in 1937; while meat packers laid by only 0.7 percent. The internal problems of these various industries are complex and different, hence the task of ascertaining the reasonableness of exemptions from taxation for depletion and depreciation is extremely difficult.

The presumed detrimental effects of the present revenue system on business is urged by the recent Brookings Institution study. Table 62 is taken from that study. Regarding the table, the Brookings study says:

> One means of revealing the burden of corporate taxation is by comparing the amount of taxes with the gross income, since it is out of gross income that taxes as well as other costs are met. It is sometimes argued that, inasmuch as some types of corporation taxes may be passed along to the consumer in the form of higher prices, they constitute no real burden to the corporation. It is clear, however, that insofar as taxes are added to the price to consumers, the volume of sales and hence gross income would be reduced. Thus a comparison of gross income with taxes would still roughly indicate the burden.[42]

[42] Harold G. Moulton, et al., Capital Expansion, Employment, and Economic Stability, Brookings Institution, Washington, 1940, p. 273.

TABLE 61.—*Selected costs and percent of total sales of certain listed corporations, 1937*

Industry [1]	Taxes other than Federal income	Percent of sales	Federal income tax	Percent of sales	Depreciation and depletion	Percent of sales	Maintenance and repairs	Percent of sales	Gross taxes as percent of sales	Depreciation, depletion, maintenance repairs as percent of sales
Steel producers	$94, 723, 741	3.3	$54, 236, 187	1.9	$151, 802, 685	5.3	$233, 854, 539	8.2	5.2	13.5
Meat packers	16, 869, 881	.8	4, 625, 756	.2	15, 746, 387	.7	25, 071, 883	1.2	1.0	1.9
Chain variety stores	18, 005, 371	2.1	11, 799, 626	1.3	15, 368, 211	1.8	2, 826, 318	.3	3.4	2.1
Automobile manufacturers	89, 529, 197	3.2	63, 337, 069	2.3	78, 829, 476	2.8	130, 047, 390	4.7	5.5	7.5
Tire and other rubber products manufacturers	37, 578, 605	4.8	6, 356, 294	.8	25, 392, 163	3.2	17, 530, 899	2.2	5.6	5.4
Agricultural machinery and implement manufacturers	16, 154, 685	2.7	23, 255, 640	3.9	16, 011, 272	2.6	22, 146, 506	3.7	6.6	6.3
Cigarette manufacturers	7, 490, 299	.8	17, 286, 886	1.8	4, 218, 430	.4	1, 638, 971	.2	2.6	.6
Sugar refiners—beet (6)	4, 774, 594	6.1	1, 880, 190	2.4	3, 737, 554	4.8	4, 778, 869	6.1	8.5	10.9
Sugar refiners—cane (8)	7, 410, 397	4.0	1, 680, 447	.9	4, 880, 932	2.6	4, 091, 538	2.2	4.9	4.8
Mail order houses	11, 465, 362	1.1	13, 861, 853	1.3	12, 584, 766	1.2	5, 899, 800	.6	2.4	1.8
Oil refiners with producing facilities	141, 763, 756	3.2	81, 817, 646	1.9	411, 446, 104	9.4	166, 833, 077	3.8	5.1	13.2
Office machinery and equipment manufacturers	6, 656, 971	2.8	8, 306, 861	3.5	8, 560, 132	3.6	7, 833, 025	3.3	6.3	6.9
Cement manufacturers	2, 053, 354	3.6	835, 079	1.4	7, 346, 616	12.8	3, 722, 666	6.5	5.0	19.3
Department stores	23, 439, 965	2.0	7, 318, 321	.6	16, 364, 382	1.4	8, 538, 522	.7	2.6	2.1
Container and closure manufacturers	8, 917, 316	1.9	9, 713, 988	2.1	16, 966, 259	3.6	17, 828, 910	3.7	4.0	7.3
Chain grocery and food stores	13, 341, 305	1.3	1, 997, 619	.2	9, 896, 475	.9	5, 486, 629	.5	1.5	1.4
Chemical and fertilizer manufacturers [2]	23, 148, 513	5.3	31, 989, 781	7.4	52, 912, 848	12.2	51, 531, 493	11.9	12.7	24.1
Motion-picture producers and distributors (9)	14, 414, 951	3.5	5, 572, 081	1.4	14, 412, 102	3.6	4, 543, 444	1.1	4.9	4.7
Automobile part and accessories manufacturers (85) [2]	19, 914, 010	6.8	20, 865, 999	7.1	30, 465, 035	10.4	40, 492, 206	13.8	13.9	24.2
Total	557, 661, 273		366, 737, 323		896, 941, 829		754, 696, 685			

[1] Data cover same number of registrants in each industry as in table 60.
[2] Percent of gross profit.

Source: Compiled from W. P. A.-Securities and Exchange Commission Reports on the Census of American Listed Corporations, 1938-39.

TABLE 62.—*Taxes as percentage of gross income*

Classification	1923	1926	1929	1932	1935	1937
Rails (class I roads):[1]						
Federal taxes	1.16	1.60	1.33	0.35	0.67	1.64
State and local taxes	3.91	4.21	4.64	7.86	5.76	5.78
Total taxes	5.07	5.81	5.97	8.21	6.43	7.42
Utilities:						
1. Traction (5 companies):						
Federal taxes	.87	1.46	.78	.72	1.06	1.46
State and local taxes	5.05	4.78	4.47	4.83	6.38	7.66
Total taxes	5.92	6.24	5.25	5.55	7.44	9.12
2. Light and power (8 companies):						
Federal taxes	2.86	3.91	3.27	2.82	3.89	5.69
State and local taxes	5.31	6.00	6.26	8.39	8.79	8.97
Total taxes	8.17	9.91	9.53	11.21	12.68	14.66
3. Gas (8 companies):						
Federal taxes	2.00	2.38	2.09	2.23	2.02	2.15
State and local taxes	5.62	6.19	7.15	8.72	8.98	10.12
Total taxes	7.62	8.57	9.24	10.95	11.00	12.27
4. Water (6 companies):						
Federal taxes	3.32	3.40	2.81	2.46	3.67	4.51
State and local taxes	12.13	12.42	13.01	14.47	14.93	17.32
Total taxes	15.45	15.82	15.82	16.93	18.60	21.83
5. Telephone (8 companies):						
Federal taxes	1.64	2.30	2.23	2.23	2.41	3.58
State and local taxes	5.22	5.62	6.27	7.38	7.63	9.01
Total taxes	6.86	7.92	8.50	9.61	10.04	12.59
Industrials:						
1. Motors (3 companies):						
Federal taxes	-----	-----	1.58	.65	3.70	4.18
State and local taxes	-----	-----	.68	1.85	.57	.95
Total taxes	-----	-----	2.26	2.50	4.27	5.13
2. Iron and steel (5 companies):						
Federal taxes	-----	1.15	1.26	.13	.85	2.68
State and local taxes	-----	2.10	2.11	7.37	3.36	2.25
Total taxes	-----	3.25	3.37	7.50	4.21	4.93
3. Electrical equipment (3 companies):						
Federal taxes	-----	2.32	2.41	.19	2.61	4.21
State and local taxes	-----	.95	.83	1.99	1.58	2.22
Total taxes	-----	3.27	3.24	2.18	4.19	6.43
Trade—Chain stores (7 companies):[2]						
Federal taxes	-----	1.03	.67	.34	1.06	1.50
State and local taxes	-----	.67	.63	1.07	1.41	1.72
Total taxes	-----	1.70	1.30	1.41	2.47	3.22
Mining (6 companies):						
Federal taxes	-----	3.89	3.98	.76	3.76	5.59
State and local taxes	-----	3.11	2.79	10.64	3.72	3.10
Total taxes	-----	7.00	6.77	11.40	7.48	8.69

[1] Excludes switching and terminal companies.
[2] Data for 1936 are based on five companies: for all other years, on seven.

Source: Harold G. Moulton, et. al., Capital Expansion, Employment and Econom Stability, Brookings Institution, Washington, 1940, p. 274.

Obviously, any comparison of taxes paid by corporations to their gross income tells very little about the incidence of taxation. Nor is it necessarily true that taxes passed on to consumers in higher prices result in reduced sales, and hence burden the corporations taxed. The competitive conditions prevailing in the market place affect various businesses differently, and hence have much to do with determining the incidence of taxation. Among regulated public utilities, for example, the tax imposed is included in the rate base and passed on to the ultimate consumers. But these individual imposts are not large enough, nor felt directly enough by most consumers as to curtail their use of streetcars, gas, electricity, water, and telephones. Factors other than taxes govern the domestic consumption of utility services. If this were not true, and known to be true by the utility corporations, they would hardly give such widespread publicity to the impact of taxation on consumers, lest it hurt business.

The same reasoning applies to other groups described in the table, so that the use of gross income figures to show the burden of taxation on corporations is of doubtful value, despite the attempt of the Brookings Institution to give it important significance.

The table has value for other purposes, however. For example, it shows that the taxes imposed on representative businesses are primarily State and local government levies on real and personal property, and on income; hence they are not determinable by the Federal Government and cannot be affected directly by national tax policy. Yet the attack on corporation levies seeks primarily to change the Federal statutes. The reason for this is obvious. State and local taxes, except for relatively small corporation franchise and income taxes in some States, are property taxes and other levies which are probably calculated as business costs and are added to selling prices. The Federal taxes, on the other hand, are primarily levied on corporation income and profits, and cannot be passed on to consumers. Hence they become extractions from the investors who own the corporations, and arouse the bitter opposition of business managers.

Table 63, chart 43, presents indexes for the corporations listed in table 62 on a base of 1929 as 100. Taxes, Federal, State, and local, have increased since 1929, but at different rates for different types of business enterprise. Clearly, no single statement of tax incidence or impact will apply to all business. In some instances Federal taxes have increased more rapidly than other taxes, in other instances the reverse is true. Increases in tax burdens generally coincide with increases in gross income, in such a way as to permit the conclusion that gross income is the determining factor, for corporations with the greatest increases in gross income also experience the greatest increases in taxes. Taxation, therefore, tends to follow changes in income rather than to cause such changes, and it seems fairly clear that taxes are incidents in business rather than determiners of business activity and income.

TABLE 63.—*Tax and income data for selected corporations*

[Index numbers 1929=100]

Classification	1923	1926	1929	1932	1935	1937
Rails (class I roads):[1]						
Gross income	98.6	100.7	100.0	50.8	55.0	65.6
Federal taxes	86.2	121.1	100.0	13.3	27.6	81.3
State and local taxes	83.1	91.3	100.0	86.0	68.4	81.7
Interest	95.0	99.5	100.0	102.5	99.3	95.9
Dividends	70.7	82.7	100.0	19.2	38.5	34.3
Utilities:						
Tractions (5 companies):						
Gross income	86.9	94.7	100.0	93.6	84.1	85.0
Federal taxes	97.4	178.6	100.0	87.4	115.0	160.6
State and local taxes	98.2	101.2	100.0	101.2	120.0	145.7
Interest	92.0	97.1	100.0	109.0	104.6	102.4
Dividends	66.6	107.3	100.0	64.7	63.7	68.8
Light and power (8 companies):						
Gross income	55.7	76.9	100.0	90.5	95.6	107.8
Federal taxes	48.7	92.0	100.0	78.0	113.7	187.5
State and local taxes	47.2	73.7	100.0	121.2	134.2	154.3
Interest	70.5	85.7	100.0	113.7	119.7	103.2
Dividends	34.7	61.9	100.0	106.4	92.9	100.7
Gas (8 companies):						
Gross income	74.5	88.1	100.0	88.6	90.0	104.1
Federal taxes	71.2	100.2	100.0	94.3	87.0	107.1
State and local taxes	58.6	76.3	100.0	108.0	113.1	147.3
Interest	68.1	85.5	100.0	113.9	113.9	109.3
Dividends	38.3	42.8	100.0	77.8	45.2	41.7
Water (6 companies):						
Gross income	69.1	87.3	100.0	99.5	101.4	107.0
Federal taxes	81.9	105.8	100.0	87.1	132.7	171.9
State and local taxes	64.4	83.4	100.0	110.6	116.4	142.4
Interest	65.9	86.5	100.0	130.6	131.5	120.1
Dividends	55.5	77.8	100.0	93.5	94.9	88.4
Telephone (8 companies):						
Gross income	63.9	92.0	100.0	91.5	99.9	112.8
Federal taxes	46.9	94.9	100.0	96.4	108.1	180.7
State and local taxes	53.2	82.5	100.0	107.8	121.7	162.1
Interest	72.7	85.8	100.0	102.0	77.1	68.4
Dividends	57.9	83.7	100.0	123.5	115.0	130.8
Industrials:						
Motors (3 companies):						
Gross income	-------	-------	100.0	32.5	100.9	142.1
Federal taxes	-------	-------	100.0	13.6	235.8	375.4
State and local taxes	-------	-------	100.0	88.8	85.4	198.9
Interest	-------	-------	100.0	79.4	25.6	-------
Dividends	-------	-------	100.0	37.7	69.3	120.2
Iron and steel (5 companies):						
Gross income	-------	94.0	100.0	25.1	54.9	107.4
Federal taxes	-------	85.4	100.0	2.6	36.9	228.3
State and local taxes	-------	93.5	100.0	87.5	87.4	114.9
Interest	-------	132.9	100.0	64.0	64.3	54.2
Dividends	-------	63.0	100.0	18.4	12.0	88.6
Electrical equipment (3 companies):						
Gross income	-------	79.4	100.0	35.6	54.3	93.9
Federal taxes	-------	76.5	100.0	2.7	58.9	164.2
State and local taxes	-------	91.0	100.0	85.7	103.6	252.6
Interest	-------	174.9	100.0	71.4	68.4	35.5
Dividends	-------	61.3	100.0	37.7	47.1	152.5
Mining (6 companies):						
Gross income	-------	81.1	100.0	27.6	86.4	130.7
Federal taxes	-------	79.0	100.0	5.3	81.4	183.4
State and local taxes	-------	90.3	100.0	105.5	115.3	145.6
Interest	-------	147.0	100.0	119.9	119.3	33.8
Dividends	-------	63.9	100.0	6.4	41.8	96.4

[1] Excludes switching and terminal companies.

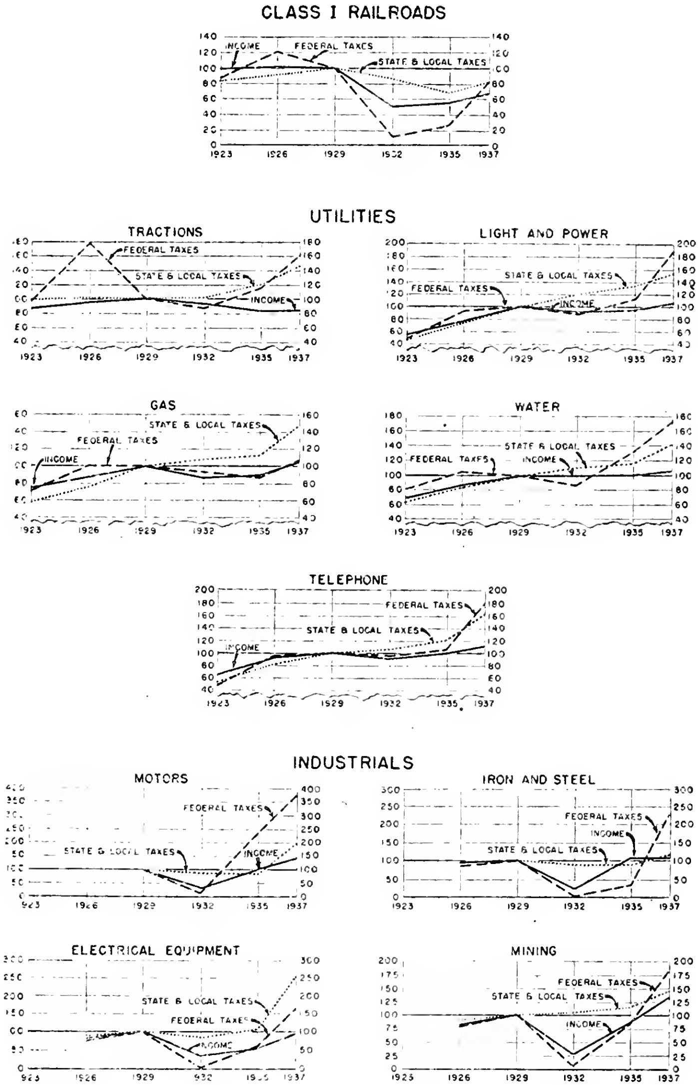
Source: Adapted from Capital Expansion, Employment, and Economic Stability, Brookings Institution, Washington, D. C., 1940, p. 402.

CHART 43

TAXES AND INCOME IN THE UNITED STATES

SELECTED CORPORATIONS FOR SELECTED YEARS

INDEX 1929=100



SOURCE: Adapted from CAPITAL EXPANSION, EMPLOYMENT AND ECONOMIC STABILITY, Brookings Institution, Washington, D.C., 1940, p 402

Martin Taitel's monograph in the T. N. E. C. series, *Profits, Productive Activities, and New Investment*, offers striking evidence of these conclusions. In the prosperous twenties, with the exception of the depression year 1921, profits of the corporate system as a percentage of produced income ranged from 10.2 to 16.3 percent, after payment of Federal income and profits taxes. Following the depression period 1930–33, the corporate system recovered so that by 1936 profits after payment of Federal income and profits taxes were 10.9 percent of produced income. During the twenties, Federal income and profits taxes ranged from 2.1 to 3.8 percent of produced income; in 1936 they were 3.3 percent.

Taitel concludes that the failure of the business system to continue the maintenance or expansion of the national income is not due either to the amount of profit income or the rate of return on capital. His study shows:

> Factors other than the amount or the rate of profit have been the major determinants of the level of capital expenditures of groups of companies in the same industry, and hence, of business as a whole. Of these factors, the most important have been the level of output and the pressure upon business for the introduction of available new technologies.
>
> * * * * * * *
>
> One of the anomalies of our economy has been that years of high profits have not invariably been followed by years of high levels of business activity, or employment, or of profits. This indicates that high profits, in and of themselves, are not sufficient for the continuance of a high level of national income. High profits have been attained in the periods 1912–13, 1919, 1923, 1925–26, 1928–29, and 1936–37, after expansion from the low levels of the preceding periods of recession or depression. Yet each of these high-profit periods was followed by a decline in business activity. Furthermore, each of the two periods of greatest corporate profits, 1916–19 and 1928–29, was followed by an unprecedented decline in business activity.
>
> * * * * * * *
>
> Similarly, years of low profits have not invariably been followed by years of low levels of business activity and of profits, which indicates that low profits, in and of themselves, cannot be responsible for a continuance of a low level of national income.
>
> * * * * * * *
>
> All this implies neither that high profits retard and low profits stimulate business activity, nor that the volume of profit has no influence on the national income. But it does mean that factors other than the volume of profits are at least at some times the major determinants of the level of the national income.
>
> * * * * * * *
>
> Concentration of income and wealth is the most important single factor leading to a volume of capital expenditures inadequate for the maintenance and expansion of the national income. The importance of concentration lies not in the fact that it leads to a high rate of savings. For a high rate of savings in itself is no barrier to a sustained high national income. Rather, the importance of concentration lies in the fact that savings are made by individuals and groups who do not or will not themselves consume the output of the capital goods which their savings can create.[43]

The Brookings study makes much of the downward trend in amounts carried to surplus since 1931. In this connection the study says:

> It should be borne in mind, however, that net income is affected quite as much by the volume of business as by the weight of taxation; hence taxation policy cannot be held entirely responsible for the decrease in the amounts carried to surplus.[44]

[43] Profits, Productive Activities, and New Investment, T. N. E. C. Monograph No. 12.
[44] Ibid., p. 278.

This is a monumental understatement of the true situation, for it is obvious from the percentage of corporate net incomes taken by taxes that taxation does not determine corporation income and is not responsible for the loss of business surpluses. Surplus is variously defined as the excess of assets over liabilities, and as the amount of undistributed earnings kept in the corporation for use in unforeseen emergencies. Without exception the corporations listed in the table showed dividend payments to stockholders all during the depression and post-depression period. In addition to profits, many of the corporations laid by substantial sums in their surplus accounts. It would seem that the tax system had worked little hardship on such successful business enterprises.

Noel Sargent, secretary of the National Association of Manufacturers, testified before the Revenue Revision subcommittee of the Ways and Means Committee that:

> Full business recovery, * * * a high national income, and a sound fiscal position involve reduction of Federal surtax rates which discourage investment of savings in private industry.[45]

Sargent reported the results of a questionnaire sent to 709 companies, members of the National Association of Manufacturers, who gave 1,045 reasons for their deep concern about the future of business profits, summing up the study with the comment, "The principal factor given as causing this doubt was the present tax burden." [46] He contended that the rates on personal incomes had become so fantastically high that a lowering of the surtax rates would bring increased revenue, as a result of the increased income from the use of venture capital in business enterprise. At this juncture he offered evidence which can be tested by objective measurements. Sargent said that tax rates were lowered from 1921 to 1922 and again from 1924 to 1925, yet tax revenues increased. He pointed out that:

> In those particular years there was no great change in the national income of the country. So that your tax yield was not affected by an increasing national income. I grant you, if the national income had increased enormously, then you would be able to say that the lowering of taxes and a higher yield at the lowered rates really were due solely to the increase in tax[able] income, and had no relation to taxes, but as it happens the national income had no particular change in those particular years.[47]

An examination of the data shows that current production income increased 13 percent from 1921 to 1922, and gained 8.6 percent from 1924 to 1925.[48] Individual taxable net income increased 9.2 percent from 1921 to 1922, individual returns increased 1.9 percent, and the amount of taxes paid increased 19.7 percent.[49] The number of corporation returns increased 7.4 percent from 1921 to 1922, net income of corporations gained 60.6 percent while taxes paid grew 11.7 percent.[50]

It appears that despite the reduction in tax rates referred to by Sargent, the increases in total income and in income subject to taxation resulted in a substantially greater tax yield in 1922 than in 1921. The difference in tax rate in the 2 successive years could not have accounted for this increased tax revenue. Profit-yielding investments are not so sensitive to tax rates, and large shifts in investments do not occur with such rapidity. Nor was the surtax rate in either year

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[45] Ibid., p. 146.
[46] Ibid., p. 171.
[47] Ibid., p. 159.
[48] Brookings Institution, America's Capacity to Consume, 1934, p. 148.
[49] U. S. Treasury Department, Statistics of Income, 1929, pp. 31-32.
[50] U. S. Treasury Department, Statistics of Income, 1929, p. 365.

high enough to be regarded by investors as oppressive to business incentive. The real cause of the increased tax yield is found in marked improvement in the general business situation after the slump of 1920–21.

Likewise, from 1924 to 1925, current production income increased 8.6 percent, personal income taxes paid grew 4.3 percent, and corporation income taxes advanced 32.8 percent.[51]

This was in the midst of the "fabulous twenties" characterized by business expansion, speculation, and rapidly accumulated fortunes. Here, again, national income and taxable income increased, so that tax losses which might have been expected from reductions in rates failed to materialize. If, however, rates had been increased in these successive years, the tax yield would undoubtedly have been substantially greater than it was, for the momentum of increases in national income was so strong that short of actual confiscation of wealth there was little chance that higher tax rates would cause a drop in produced income subject to taxation.

Data have been presented in this treatise showing the impact of the income tax (pt. III, tables 31 and 40 give the facts). The discussion of the tables showed that the effective tax rate is not nearly so severe as is customarily believed. This belief arises out of confusion concerning the graduated surtax rates, in which the top rate of 75 percent on incomes of $5,000,000 or more is popularly presumed to represent the severity of the impost, whereas that rate is actually levied only on the increment of $5,000,000 plus. It appeared, further, that the actual levy of income taxes, even on those possessing annual incomes of $100,000 or more, leaves substantial sums with the taxpayers for savings and investments. There is no evidence in income or tax data indicating any threat from taxation to the savings required for business investment and expansion.

Table 64 shows the yearly changes in income-tax returns and payments. The net income available for taxation is subject to the variations of the national economy, as a whole. Thus, the high peak of net income recorded in 1929 has not been duplicated in any year since then, and the loss in income from 1929 to 1936 was 30.6 percent. During these years changes occurred in the tax statutes, increasing rates from 1931 onward. There were 16.4 percent more persons subject to the tax in 1936 than in 1929, and the tax assessed increased 21.2 percent. Despite a substantial loss in net taxable income, the yield of income taxes was larger.

TABLE 64.—*Yearly summaries of individual income-tax returns, net income, and tax assessed, with percentage change from previous year, 1929–36*

Year	Returns		Net income		Tax assessed	
	Number	Percentage change	Amount	Percentage change	Amount	Percentage change
1929	2,458,049		$20,493,491,443		$1,001,938,147	
1930	2,037,645	−17.1	13,692,584,305	−33.2	476,714,808	−52.4
1931	1,525,546	−25.1	9,297,017,593	−32.1	246,127,177	−48.4
1932	1,936,095	+26.9	7,919,587,855	−14.8	329,962,311	+34.1
1933	1,747,740	−9.7	7,372,660,352	−6.9	374,120,469	+13.4
1934	1,795,920	+2.8	8,343,558,291	+13.2	511,399,778	+36.7
1935	2,110,890	+17.5	10,034,105,975	+20.3	657,439,343	+28.6
1936	2,861,108	+35.5	14,218,853,550	+41.7	1,214,016,803	+84.7
1936 over 1929	+403,059	+16.4	−6,274,637,893	−30.6	+212,078,656	+21.2

Source: U. S. Treasury Department, Statistics of Income, 1929, and annual issues through 1936.

[51] Ibid

Yearly fluctuations in net income reflect changes in the total economy, but annual changes in taxes assessed include also the change in tax rates. For example, net income subject to tax declined 14.8 percent from 1931 to 1932, but changes in tax rates produced 34.1 percent more revenues.

A crude measure of the relative impact of the income tax is found in a comparison of the percentage of net income taken by the tax. In 1929 income taxes took 4.9 percent of the net income subject to the personal income tax laws; in 1936 they extracted 8.5 percent from net incomes. In the over-all, therefore, the burden of net income taxes was and is light.

A realistic interpretation of an important phase of the economic situation was made by M. L. Seidman, chairman of the taxation committee of the New York Board of Trade, when he appeared before the House Ways and Means Committee, saying:

> No owner of capital will deliberately keep it unemployed. Only when the possibility of profit is so uncertain or the risk of loss so great as to make business ventures foolhardy will the owner prefer to conserve his capital by not risking it at all. It is for that reason that there are more idle dollars today than at any other time in our financial history.[52]

Arguing further that our present resources are fully taxed, and that a mounting deficit and continued unbalanced Budget threaten the stability of the economy and retard business expansion, Mr. Seidman urged the necessity of bringing the fiscal system in balance by curtailing Government expenditures. The fear of mounting national debts and their ultimate repudiation, or drastic increases in taxation to pay them off, are believed to hang ominously over those who have capital to invest. Speaking to the point, the witness said:

> We have in the last 6 years gone from a four billion to nearly a ten billion dollar Budget. Business is too realistic not to understand that any sudden and substantial cut in these expenditures would cause further serious dislocations in our economy. Some classes of expenditures, nonexistent 6 years ago, are now so deeply entrenched in our economy that we can never again get rid of them.[53]

The nature of debt has been discussed earlier. To an economist, private investment and private debt are synonymous, and the volume of such debts indicates the relative degree of prosperity that prevails, for debts means more production, more employment, more purchasing power. In these respects there is no essential difference between private and public debt. Throughout our history the amount of public and private debt has fluctuated from year to year, and the growth of the national economy has been measured by the total of both rather than by either alone.[54]

In fact, it is impossible to determine the precise influence of each sector, private and public, on the investment structure and economic development of the Nation, so inextricably have they been bound together in that development. Only when public debt begins to overshadow private investment, even though the shrinkage of the latter is far more responsible than the growth of the former, is the cry raised that Government debt jeopardizes the solvency of the Nation and is forcing capital into hiding to escape tax levies which will destroy its earning power.

Table 65, chart 44, offers certain pertinent data concerning the total debt of the Nation. The peak debt shown there is for 1929,

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[52] Hearings before the House Ways and Means Committee on Revenue Revision, op. cit., p. 175.
[53] Ibid., p. 176.
[54] See pp. 34–35.

when the indebtedness of government and private businesses was $160,000,000,000. The interest charges on this enormous debt were 7.81 percent of the year's national income (table 66, chart 46). Of the debt 78 percent was owned privately, 22 percent publicly. The moral obligation to pay off these debts was identical, but the financial crash at the end of the year saw the wholesale repudiation of private indebtedness and the scaling down of private debt, as businesses refinanced their obligations and investors withdrew from the market. While some local public debts were defaulted, they were relatively few, and public obligations enjoyed a strong position in the investment market resulting in low interest rates.

TABLE 65.—*Government and private debt in the United States, 1921–39*

[Dollar figures in millions]

Year	Governmental debts (Federal, State, and local) [1]			Private debt (long-term,[2] and bank loans and discounts)			Total	
	Amount	Percent of total	Percentage increase	Amount	Percent of total	Percentage increase	Amount	Percentage increase
1921	$32, 663	29. 6		$77, 458	70. 4		$110, 121	
1923	33, 668	28. 2	3. 1	85, 521	71. 8	10. 4	119, 189	8. 2
1925	34, 547	26. 0	2. 6	98, 652	74. 0	15. 4	133, 199	11. 8
1927	34, 775	23. 6	. 7	112, 470	76. 4	14. 0	147, 245	10. 5
1929	35, 266	22. 0	1. 4	124, 657	78. 0	10. 8	159, 923	8. 6
1931	37, 465	24. 0	6. 2	118, 342	76. 0	−5. 1	155, 807	−2. 6
1933	44, 954	31. 5	20. 0	97, 982	68. 5	−17. 2	142, 936	−8. 3
1935	56, 794	37. 9	26. 3	93, 250	62. 1	−4. 8	150, 044	5. 0
1937	65, 502	41. 4	15. 3	93, 033	58. 6	−. 2	158, 535	5. 7
1939 (estimated)	67, 110	42. 6	2. 5	90, 700	57. 4	−2. 5	157, 810	−. 5

[1] Includes interest-bearing debt of U. S. Government; securities of Federal agencies; and both long and short-term State and local issues.
[2] Long-term private debt was estimated.

Source: Adapted from table supplied by A. A. A., Division of Program Planning, Agricultural Industrial Relations Section.

TABLE 66.—*Interest on debt related to national income paid out, 1921–39*

[Dollar figures in millions]

Year	Interest charges on private long-term and Government debts [1]	National income paid out [2]	Interest charges as percentage of national income	Year	Interest charges on private long-term and Government debts [1]	National income paid out [2]	Interest charges as percentage of national income
1921	$4, 180	$53, 644	7. 79	1931	$6, 257	$61, 609	10. 16
1923	4, 598	64, 501	7. 13	1933	5, 944	46, 089	12. 90
1925	5, 140	72, 580	7. 08	1935	5, 571	57, 564	9. 68
1927	5, 724	75, 685	7. 56	1937	5, 434	71, 013	7. 65
1929	6, 222	79, 704	7. 81	1939 (estimated)	5, 450	68, 000	8. 01

[1] Government debt includes State and local debt on same basis as in table 65, but does not include securities of Federal agencies.
[2] A. A. A. series. Based on Department of Commerce and W. I. King's estimates of nonagricultural income plus A. A. A. estimates of agriculture's contribution to the national income.

Source: Adapted from table supplied by A. A. A., Division of Program Planning, Agricultural Industrial Relations Section.

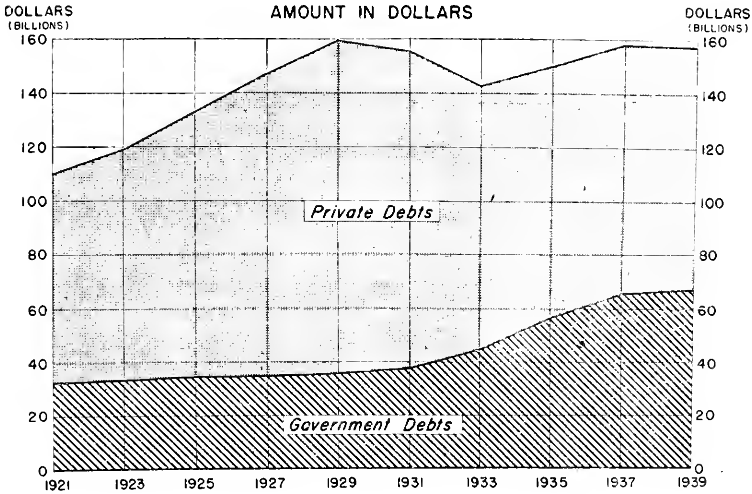
A profit economy depends for its stability and growth on the volume of investment. As the private sector of the economy shriveled up early in the depression, it was necessary for the public sector to increase its borrowings to supplement private investment and to prevent

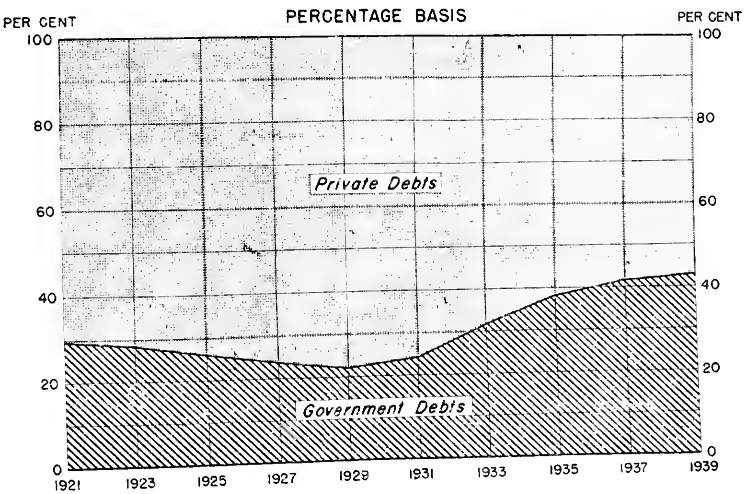
CHART 44

GOVERNMENT DEBTS COMPARED WITH PRIVATE DEBTS*

UNITED STATES

ALTERNATE YEARS 1921-1939





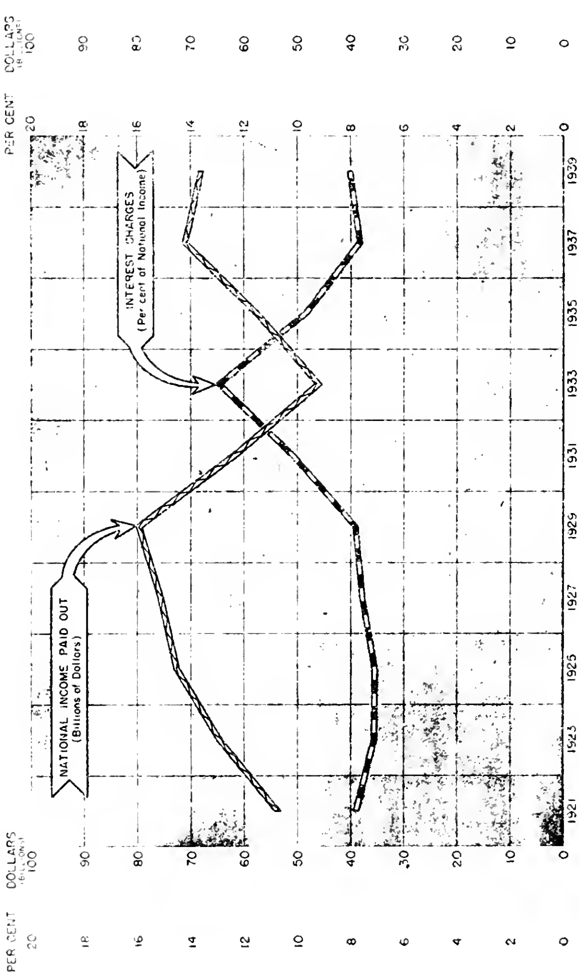
SOURCE Adapted from Table Supplied by A A A, Division of Program Planning, Agricultural Industrial Relations Section.

* Private Long Term Debts, and Bank Loans and Discounts

Chart 45

NATIONAL INCOME PAID OUT AND INTEREST CHARGES ON PUBLIC AND PRIVATE DEBT AS A PERCENTAGE OF INCOME PAID OUT

UNITED STATES, 1921-1939



NOTE: National income for 1939 estimated.

business collapse. Thus, by 1939 public debt had become 42.6 percent of the total, private debt 57.4 percent; while the total volume of debt or investment had not yet returned to the level of 1929.

Those who see grave danger in this shift from private to public indebtedness contend that crushing taxes will have to be levied some time in the future to repay it, and that present interest charges weigh heavily on the national budget. As a matter of fact, however, favorable conditions have made it possible for the Government to carry an increasing burden of debt without any proportionate increase in interest payments. Thus, in 1921 the Federal Government paid 4.3 percent for its borrowed money; this rate had dropped to 3.9 by 1929, and continued to drop thereafter as the amount of the debt increased until, in 1939, when the Federal debt reached $39,886,000,000, the highest point in its history, the interest rate was 2.6 percent. (See table 67.) The Federal debt increased 139.7 percent from 1929 to 1939, but the interest payments increased only 57.8 percent.

TABLE 67.—*Government debt and interest charges, United States, 1921–39*

[Dollar figures in millions]

	Federal			State and local			Total government		
	Debt [1]	Interest [2]	Rate of interest (percent)	Debt [3]	Interest	Rate of interest (percent)	Debt	Interest	Rate of interest (percent)
1921	$23,737	$1,030	4.339	$8,476	$380	4.48	$32,213	$1,410	4.38
1922	22,711	963	4.240	9,893	452	[4] 4.57	32,604	1,415	4.34
1923	22,008	927	4.214	10,598	484	4.57	32,606	1,411	4.33
1924	20,982	877	4.180	11,633	532	4.57	32,615	1,409	4.32
1925	20,211	830	4.105	12,830	585	4.56	33,041	1,415	4.28
1926	19,384	793	4.093	13,664	623	4.56	33,048	1,416	4.28
1927	18,251	723	3.960	14,735	672	4.56	32,986	1,395	4.23
1928	17,318	671	3.877	15,699	716	4.56	33,017	1,387	4.20
1929	16,639	657	3.946	16,760	763	4.55	33,399	1,420	4.25
1930	15,922	606	3.807	17,985	818	[4] 4.55	33,907	1,424	4.20
1931	16,520	589	3.566	19,060	863	4.53	35,580	1,452	4.08
1932	19,161	672	3.505	19,330	874	4.52	38,491	1,546	4.02
1933	22,158	742	3.350	19,517	878	4.50	41,675	1,620	3.89
1934	26,480	842	3.181	18,823	844	[4] 4.48	45,303	1,686	3.72
1935	27,645	751	2.716	18,972	833	4.39	46,617	1,584	3.40
1936	32,756	838	2.559	19,212	818	4.26	51,968	1,656	3.19
1937	35,803	924	2.582	19,152	797	4.16	54,955	1,721	3.13
1938	36,576	947	2.589	19,170	797	(4.16)	55,746	1,744	3.13
1939 (Estimated)	39,886	1,037	2.600	19,200	799	(4.16)	59,086	1,836	3.11

[1] Interest-bearing debt (June 30), interest on which is exempt from Federal income tax.
[2] Amount payable at June interest rate.
[3] Debt of State and local governments (on or about June 30), interest on which is exempt from Federal income tax.
[4] Department of Commerce debt studies (other years interpolated).

Source: A. A. A. Division of Program Planning, Agricultural Industrial Relations Section.

The Federal debt has become an important factor in the National Budget, despite the favorable terms upon which borrowings are made. In 1939, 11.5 percent of Federal expenditures went into interest payments. (See table 25, p. 66.) With the passage of preparedness budgets and the failure of revenues to cover expend tures, not only will increased borrowings be necessary, but their magnitude requires serious attention on the part of fiscal officers of the Government.

It is impossible to prophesy whether the Government might, at some time, plunge the economy into chaos by repudiating its debt, or

might enact staggering taxes to liquidate it. The answer is in the future, and subject to conjecture. It can be said, however, that since a stable National Government was established, the Federal Government has never defaulted its obligations. It is hardly likely that it will do so in the future. The national income will probably recover to reach substantially higher levels, and when that occurs, the debt services will not create serious difficulties if a high income level can be maintained. This is the hope of most Government officials, and the basis of much Government policy.

One test of the relationship of debt to economic stability can be made, namely, the ratio of interest charges on the total debt to the national income. (See table 66.) During the prosperous twenties, interest charges ranged from 7.1 to 7.8 as a percent of national income. During the troublesome thirties they ranged from a high of 12.9 percent in 1933 to a low of 7.7 percent in 1937. The present proportion of national income going for interest payments is approximately what it was in the heyday of American prosperity.

If a sudden and unexpected recovery should occur in the private sector of the economy, making large demands for investment capital, and paying interest rates substantially higher than present Government rates, there might be some danger that the interest burden of the public debt would become a serious drain on the national budget. Should such substantial increases in national income take place, however, the increased yield of tax revenues would probably offset increased interest charges, and perhaps permit reductions in the principal itself. In any event, there is no basis for any expectation of such a sudden large expansion in the private sector of the economy, or of greatly increased demands for private investment capital in safe business ventures, as an immediate prospect.

On the other hand, with the increased emphasis on preparedness, Government investments and contributions to plant-expansion programs are the order of the day. Only a miracle would bring a large enough demand for private funds at a rate high enough to endanger the interest and debt structure of the Government.[55]

LOSS OF PURCHASING POWER

It is clear, as has been pointed out, that a very substantial proportion of American families and independent individuals spend all their income on consumption goods as they receive it, and are unable to make savings.[56] Many more are living on meager, inadequate incomes. These are the people affected directly and adversely by the regressive revenue system which has developed in the United States. These regressive levies totaled $4,500,000,000, or 74 percent of all revenues. (See table 43.) Bearing primarily on small incomes, these regressive taxes reduce still further all too meager consumption incomes, extracting money which would otherwise be used for increased purchases of consumption goods. Hence, in an economy whose well-being is so largely determined by what happens to mass purchasing power, it constricts economic activity, and detrimentally affects the entire economy.

These generalizations, though important, are not particularly helpful in locating focal points of regressive tax impact, or suggesting

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[55] Harold G. Moulton et al., Capital Expansion, Employment, and Economic Stability, Brookings Institution, Washington, 1940, gives the opposite viewpoint.

[56] See appendix A, pp. 307–313.

remedies. Several of these have already been discussed in earlier treatment of specific taxes. Another of great importance is the influence of social-security taxation on the economy. One of the major factors in the shift of the Federal revenue system toward regressive forms of taxation during the past 6 years has been the addition of pay-roll taxes to support the social-security program.[57]

Based upon pay-roll taxes directly paid out of employee's wages, or when paid on the basis of pay rolls by employers, indirectly passed forward to consumers in higher prices or backward to workers in lowered wages, such payments depend, as has been well stated by Withers in a recent study, "both directly and indirectly upon the amount that the insecure contribute." [58] It is generally conceded that these taxes operate as business costs, and even though sales resistance may tend to prevent some shifting to the ultimate consumer, the small amount of the tax on each article, and the piecemeal method of collection tend to promote shifting.[59] Furthermore, the imposition of pay-roll taxes in periods of unemployment may shift the weight of the taxes to employed workers in the form of less pay or part time employment.

By January 1940 the amount collected under the old-age insurance provisions of the Security Act totaled $1,533,946,100.[60] But the amount disbursed was only $25,227,800. Thus, the reserve piled up in Government coffers, withdrawn from consumer purchasing power, by this one branch of the social-security program alone exceeds a billion and a half dollars. True, the Treasury does make use of these funds.

From January 1936 through November 1939, the unemployment provisions of the Social Security Act forced pay-roll tax collections totaling $2,547,160,700. The sum of $805,069,000 was disbursed to unemployed beneficiaries and for administration of the act. Thus the pile-up of unexpended reserves for unemployment insurance reached the staggering sum of $1,742,000,000.

By January 1940 the uneconomic and unsound financial aspects of the social-security program had piled up reserves of cash extracted in regressive pay-roll taxes totaling more than $3,250,000,000.

Epstein points out that:

> Congress removed the menace of the contemplated huge reserves (from the old-age insurance provision, which John Flynn had called attention to earlier as becoming eventually a $47,000,000,000 reserve). This was accomplished (in 1939) by the dual process of keeping the contributions stationary for a while and speeding and enlarging the disbursements.[61]

It may be that the menace of this vast reserve of almost $50,000,000,000 has been withdrawn. Nonetheless, the old-age insurance funds continue to be collected through a regressive pay-roll tax, and paid out on a highly selective basis to relatively few of the aged. This extraction from large numbers of workers of sums which they need for their everyday living expenses loads a heavy burden on the econ-

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[57] Gerhard Colm and Helen Tarasov, Who Pays Taxes? The Allocation of Federal, State, and Local taxes to Consumers Income Brackets. Temporary National Economic Committee, Washington, 1940.

[58] William Withers, Financing Economic Security in the United States, Columbia University Press, New York, 1939, p. 120.

[59] Harley Lutz, Public Finance, D. Appleton-Century Co., New York, 1936, p. 404.

[60] Abraham Epstein, Social Security—Where Are We Now? Harpers, June 1940, pp. 33–39.

[61] Ibid., pp. 34–35.

omy, and tends to prevent recovery. Epstein summarizes the situation very well:

> There is only one way in which our old-age insurance system can be put on a stable basis in terms of the future needs. * * * The whole amount available for benefits comes from wage and pay-roll taxes. But when you are devising a system which chiefly aims to underpin mass purchasing power you obviously do not achieve your end if you confine the tax to the mass itself. Such a tax only distributes poverty among the poor. The aim can be attained only by a governmental contribution raised by a tax upon those whose purchasing power would not be affected by the tax.[62]

Defenders of the social-security program tend to look askance upon any attempts to reform its financial basis, distrusting those who favor such attempts as enemies of the security program itself. They fear, understandably, that on a pay-as-you-go basis old-age benefits may suffer when they become a heavy burden on the general revenues. The illusion of an insurance reserve system is maintained in spite of the obvious differences between a compulsory universal Government plan and any private voluntary reserve system. There is every indication that they are not alike, in either purpose or effect, and, therefore, that they need not be financed on a comparable basis.

Although both the old age and unemployment benefits are sound in aim and of great social value, it appears that their financial basis is detrimental to economic recovery and stability. It seems wise, therefore, to reform the old-age payment system, making it a charge on the General Treasury, and to reduce the pay-roll charges for unemployment insurance to a sum which would defray yearly unemployment benefits in the covered industries, amending the act to provide that the Treasury would make up any yearly deficiency which resulted. The release for consumer spending of the millions of dollars now collected in pay-roll taxes would have a most desirable effect on the national economy.

Moreover, with the adoption of the preparedness program, employment should increase substantially, accumulating more rapidly than ever the vast cash reserve from pay-roll levies. Furthermore, the constant changes in employment status of individual workers in this chaotic period will add greatly to the cost of record keeping and administration of the act.

Price rises, and the inevitable lag in wage increases, will mean a further handicap to the workers as a result of their contribution to the reserve. Finally, the demobilization of armed forces, unemployment, and depression which are generally the aftermath of war may find the unemployment-compensation program utterly inadequate to meet their demands, while the pile-up of undistributed reserves further aggravates an intolerable economic situation.

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[62] Ibid., p. 37.

IS THE REVENUE SYSTEM ADEQUATE?

TO MEET GOVERNMENT NEEDS

The present Federal revenue system is inadequate to meet either the current needs or extraordinary demands now being made upon the Government. To continue it much longer is to court economic disaster. Functioning in a peacetime economy, it has proved so regressive in character as to interfere seriously with business recovery, because it so sharply curtails mass purchasing power.

Furthermore, the yearly expenditures of the National Government continue in excess of revenues derived from this uneconomic and burdensome tax system. The estimate of this excess for the threadbare thirties is more than $2,600,000,000 a year. Budgets necessarily continue to grow as the relief and security problems remain unsolved, yet tax revenues do not increase proportionately, in spite of higher rates, because the taxable sources have shrunk.

While the recovery program has improved economic conditions, and total income has risen substantially since 1933, nothing short of a dramatic increase in national income not now on the horizon nor experienced during the past 10 years, can make the present revenue system defray peacetime budget costs. Under these conditions, the prospect of a balanced budget is slight.

Excessive cost and waste in Government operations are frequently blamed for the size of the deficit. Studies on this point made by independent accounting and administrative agencies have usually suggested changes calculated to effect operating economies, but for the most part they conclude that Government costs can be substantially reduced only by reducing the number and quality of services performed.

Public administration has vastly improved in the last decade. The civil service has advanced the merit system, and the professionalization of personnel and procedures has increased efficiency. There is undoubtedly room for further improvement and more economies in Government, but it is unrealistic to presume that in this direction lies the solution of the problem of balancing income and outgo.

The analysis of Federal expenditures made in section 2 came to the conclusion that in all probability current Government expenses represent the minimum level to be expected for several years to come. The new emphasis on military preparedness indicates still further increases in cost. Pressure groups have been gaining headway with their programs for hospitalization and health services at public expense; the support of the social-security program may be shifted increasingly to a pay-as-you-go plan, which will add considerably to budgetary costs; Federal aid for education and for conservation of natural resources requires substantial increases in Government expenditures. In terms of these requirements, the present level of Federal expenditures is woefully inadequate.

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Even without the preparedness program, the peacetime expenditures of the Federal Government which would provide reasonable sums for old and imminent new services would approach $10,000,000,000 a year. The revenue program in force in 1938 collected slightly more than $6,000,000,000 in taxes.

Considering the peacetime budget and revenue system for the moment, four alternatives present themselves. One is to whittle down expenditures to a point where outgo is balanced by present income. This would mean a budget reduction of $2,000,000,000 or $3,000,000,000 a year, a reduction in Government services and relief that would seriously limit mass purchasing power and hamper recovery. Such a procedure is not to be considered unless the private sector of the economy shows unmistakable signs of recovery sufficient to make public expenditures for relief no longer necessary.

Another possibility is that taxable income will so increase as to yield, under the present rates, sufficient revenue to defray Government expenditures. All during the late thirties this had been held before us as a realizable hope Yet, despite the considerable recovery in national income experienced since the trough of the depression, substantial borrowings have been needed every year, and the end is not yet in sight.

A third alternative is to continue pump priming and deficit budgeting in an effort to achieve this increase in taxable income by Government action. Yet this hope is founded on the belief that present levels of national income are still depression levels rather than somewhat normal levels following the drastic events of the early thirties.

A fourth, and considerably more realistic approach, especially in view of the newly adopted preparedness program, and valid also in terms of the need for increased peacetime expenditures, is to revamp the present revenue structure, first to obtain revenues large enough to pay for a full complement of the social services which should be provided at public expense, and second to achieve a tax system which promotes the fullest measure of recovery and social-economic adjustment.

TO DEFRAY THE COST OF NEW SERVICES

The demand for Federal aid in education gained great momentum in an increasing number of States as the depression broke down the real property tax base upon which schools depended. The President heeded this demand by appointing the Advisory Committee on Education in 1936. This Committee, composed of leading educators and public men, made a thorough study of the problems involved in supporting an adequate minimum of common schooling. They found great disparity in the ability of different States to support education, and a wide range of educational offerings in the States despite their increasing interdependence.

The disparity between educational advantages of States was brought out in the testimony before a congressional committee on a bill for Federal aid in 1937.[63] Illiteracy among school-aged persons ranged from a low of 0.8 percent in one State to a high of 14.9 percent in another. Average annual expenditures per pupil ranged from a niggardly allowance of $24.50 to the substantial amount of $137 69. Average annual teachers' salaries ranged from $465 to $2,361 The

[63] Statement of Howard A. Dawson, Hearings on House Resolution 5962, 75th Cong., 1st sess., 1937.

value of school property ranged from $62 per pupil to $570. By 1935 over 48,000 schools, 1 out of every 8, had been forced to curtail the school year, and many were entirely closed for lack of funds.

This was not the result of public unwillingness to provide for educating the young. Some States have insufficient taxable income to permit a complete array of necessary services. Ashby portrayed this situation graphically in his application of a model tax plan to the several States. He determined that in 1932 the yield of revenue from the model tax system in Alabama and Mississippi would have been so low that 80 and 96 percent of the total yield, respectively, would have been needed to defray the costs of a reasonably adequate school system, while only 21 percent of the tax yield would have supported a similar program in New York State.[64] Yet the mobility of population has increased at such an astounding rate that no State could conduct its affairs without suffering considerably from the educational lags of other States.

The President's Advisory Committee on Education proposed a limited program of Federal participation in education in addition to already existing services, amounting to grants-in-aid totaling $140,000,000 by 1945. This was recognized as only the beginning of an attempt to provide an equalizing fund which would bring the larger resources of the National Government to the aid of the poorer and more impoverished States.

An indication of the probable future educational burden to be carried by the Federal Government is given in table 68, chart 46, showing the trend of development since 1910, and the participation of the several governments in educational expenditures. Once the Federal Government has been committed to participation in the support of general education, it will probably take over an increasing share of the burden, as it has done in other lines. This is particularly likely in face of the restricted nature of local and State tax resources and the limitation of expenditures in many States due to the break-down of their tax systems.

TABLE 68.—*Tax revenues expended for public schools, by level of Government, for selected years, 1909–10 to 1935–36*

[Dollar figures in millions]

Year	Total	Federal [1]		State		Local	
		Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
1910	$376.8	$1.5	0.4	$63.1	16.7	$312.2	82.9
1920	895.7	4.7	.5	132.1	14.7	758.9	84.7
1930	1,982.3	10.1	.5	326.5	16.5	1,645.7	83.0
1932	1,982.8	12.4	.6	380.7	19.2	1,589.7	80.2
1934	1,727.4	8.9	.5	400.6	23.2	1,317.9	76.3
1936	1,895.6	11.6	.6	553.6	29.2	1,330.4	70.2

[1] Includes amounts listed as Federal appropriation for the District of Columbia and Federal aid for vocational education. Excludes $14,536,010 of Federal aid for rural teachers in 1933–34.

Source: Clarence Heer, Federal Aid and the Tax Problem Staff (Study No. 4) Advisory Committee on Education, Washington, 1939, p. 32.

[64] Lyle W. Ashby, The Efforts of the States to Support Education, National Educational Association, Washington, 1936, p. 50 ff. Reported also by Groves, Financing Government, pp. 556–557. Similar and other supporting data are offered by John K. and Margaret A. Norton, Wealth, Children, and Education, Teachers College, Columbia University, New York, 1938; publications of the Advisory Committee on Education, Washington, 1939; Paul R. Mort, Federal Support for Public Education, Teachers College, Columbia University, 1936.

Dr. Clarence Heer, tax specialist for the President's Advisory Committee on Education, summarized his careful findings on the subject of Federal support for education as follows:

1. From the point of view of all four of the major tests of a good tax system—fiscal adequacy, administrative efficiency, equity, and economic effects—Federal aid for education offers a better method of raising new money for schools than State and local taxation.

2. From the point of view of fiscal adequacy, Federal aid is superior because it places the responsibility for raising new school funds on the level of Government which has the widest range of productive tax sources at its disposal, and which is in the best position to exploit those sources effectively.

3. From the point of view of administrative efficiency, Federal aid for education is to be preferred because it will permit the needed school revenue to be raised by methods which involve less annoyance and expense to the taxpayer, which present fewer opportunities for tax avoidance and evasion, and which entail relatively lower administrative costs.

4. From the point of view of equity, Federal aid for education presents the more desirable alternative because it will place the responsibility for obtaining additional school revenue on the level of government best fitted to distribute its taxes according to the principle of ability to pay. To the extent that public education is a matter of national concern, Federal aid will make it possible more nearly to equalize the burden of maintaining a national minimum of educational opportunity throughout the country. To the extent that education is a State and local function, Federal aid will provide a means of correcting the inequities in the present system of school support which result from the extraterritorial shifting of State and local taxes.

5. Finally, from the point of view of economic effects, Federal aid for education offers the better mode of procedure because the Federal Government has far greater freedom than have the States and localities to select fiscal measures appropriate to given economic and social objectives.[65]

Present Federal expenditures are quite inadequate to defray the costs of conserving the Nation's natural resources which have been so ruthlessly exploited. Yet the problems of restoring the fertility of much of our soil, reforesting our denuded areas, reclaiming our swamplands, making the most economical use of our waterways, controlling seasonal floods, and reestablishing the wildlife areas of the Nation press insistently for solution. In this process fiscal policy and the tax system can be employed to excellent advantage.

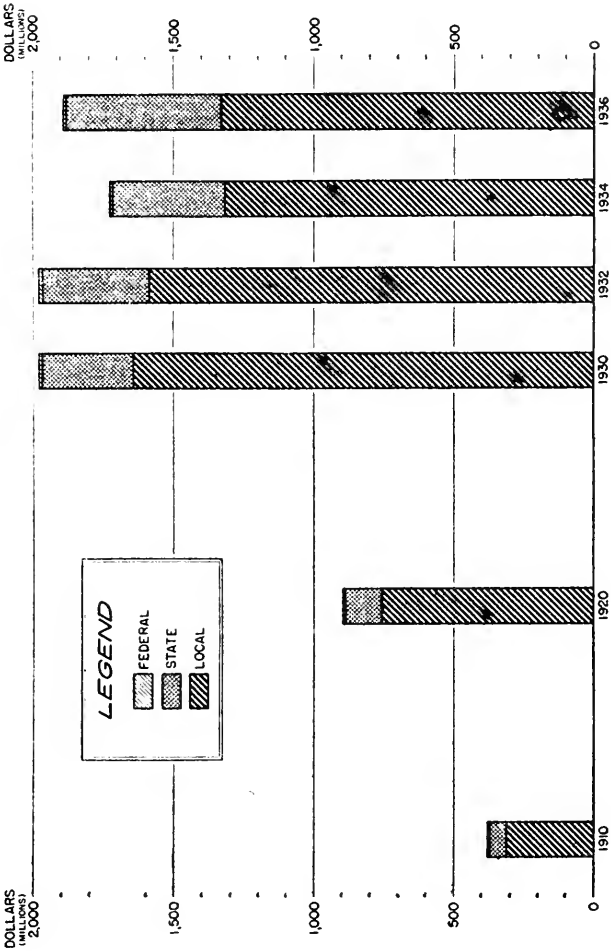
The Federal Government has begun to map the natural resources of the Nation and determine the needs for conservation. Reports concerning our forest areas are typical of the waste and misuse of our resources generally. One-third of the continental area of the United States is suitable for forests. At best, only 2 percent of the timber-growing area of the Nation is being used intensively. The combination of destructive cutting and fire have destroyed more than 75,000,000 acres of timber-growing areas. Original stands of saw timber have been reduced by more than 75 percent. In the higher grade timber the drain in even a subnormal year is nearly a half more than the annual growth. The report of the Forestry Service concludes:

To meet the real needs of our people with a margin for export and for safety, growth must be nearly doubled. To accomplish this the area under intensive forest management must be increased at least 10 times and that under extensive management at least 3 times. This will require about 75 years of greatly enlarged efforts. * * * Since the time of settlement, timber products such as lumber, worth perhaps $100,000,000,000, have been drained off from the forests with only the most inadequate provision for renewal. * * * The annual cost [of

[65] Clarence Heer, Federal Aid and the Tax Problem, Advisory Committee on Education, Staff Study No 4, Washington, 1939, pp. 86–87.

CHART 46

TAX REVENUES EXPENDED FOR PUBLIC SCHOOLS
FOR SELECTED YEARS, BY LEVEL OF GOVERNMENT
UNITED STATES, 1909-10 TO 1935-36



SOURCE: FEDERAL AID AND THE TAX PROBLEM, Staff Study No 4, Advisory Committee on Education, Washington, D.C., 1939, p 32.

an adequate program of reforestation] during the next 20 years * * * would average about $245,000,000.[66]

Fiscal policy and taxation are very useful instruments for reforestation. The program embraces a system of benefit payments to farmers for specific adjustment of their land usage, including the withdrawal of woodlands from cultivation, planting of suitable trees and coverage, and their proper care over a period of years. Adequate protection from insects and fire is essential. Forest credits extended by the Government to individuals and cooperative firms, which will include oversight of forest acreage and cuttings, planting, and harvesting according to proper practices, are an integral part of the program of conservation. Finally, the reorganization of property-tax laws and assessments, including in some instances a stumpage-value tax, is necessary to defer the cutting of immature timber.[67]

Governments have given little attention to the problems of conservation, particularly in relation to fiscal policy and taxation. Yet in any attempt to establish an effective conservation program taxation must be used as one of the instrumentalities. The results of studies now being pursued concerning our natural resources and the cost of a comprehensive program of conservation are uncertain, but it seems inevitable that a far-reaching reorganization of the entire tax structure will be involved.

[66] U. S. Forestry Service, A National Forest Economy, June 1939, p. 17 ff.

[67] See Fred Rogers Fairchild, Forest Taxation in the United States, U. S. Department of Agriculture, October 1935, for a very comprehensive study of taxation of forest lands.

THE BALANCED BUDGET

The period 1930–40 will probably be remembered in fiscal history as the era of the great struggle over the "balanced budget." The issue formed the core of the conservative attack upon the New Deal. One school of thought held that unless the budget was balanced immediately, disastrous inflation, financial panic, and deepened depression would result. To this group only a savage pull on the belt, a tightening up to the point where expenditures would not exceed the drastically curtailed revenues of the depression period, would suffice. As Herbert Hoover, able exponent of the balanced-budget philosophy, said in his message to Congress at the beginning of the most severe year of the depression:

> The appropriations which I recommend be made for the fiscal year ending June 30, 1934, * * * provide for a temporary reduction in the rate of pay of Federal personnel, * * * and for other purposes, * * * effecting an additional saving of $55,000,000, and amending certain laws providing for benefits to veterans, producing a further saving of $127,000,000 * * *. I earnestly recommend to the Congress that there be no further grants of legislative authority for appropriation for Federal-aid highways until the financial condition of the Treasury justifies such action * * *. The estimates for public works * * * for 1934 show a marked reduction below the appropriations for 1933 * * *. In spite of the large reduction in expenditures, the revenues under existing laws are expected to fall short of providing sufficient money to avoid a further increase in the public debt in the fiscal year 1934 by about $307,000,000. To meet this situation I recommend that the Federal tax on gasoline * * * be continued; * * * that the manufacturers' excise taxes now imposed on certain articles be extended and in part replaced by a general uniform tax (excluding food). I have been advised that the annual yield of such a general tax at a 2¼ percent rate would be approximately $355,000,000.[68]

Herbert Hoover summed up his position in a concluding statement on the 1933–34 budget as follows:

> * * * A large excess of expenditures with consequent increase in the public debt is anticipated for the current fiscal year.
>
> Such a situation cannot be continued without disaster to the Federal finances. The recommendations herein presented to the Congress for further drastic reductions in expenditures and increased revenues will serve to prevent a further increase in the public debt during the fiscal year 1934 only if Congress will refrain from placing additional burdens on the Federal Treasury.
>
> I cannot too strongly urge that every effort be made to limit expenditures and avoid additional obligations not only in the interest of the already heavily burdened taxpayer but in the interest of the very integrity of the finances of the Federal Government.[69]

Much water has gone under the bridge since these pronouncements were made. Even though President Hoover insisted that the budget must be balanced to prevent economic instability, the average annual deficit, excluding debt retirement, for 3 years of his administration (1931–33) was $1,591,000,000. The advent of the New Deal and the relief program in 1933 brought the average annual deficit for the

[68] Message of the President of the United States Transmitting the Budget for the Fiscal Year Ending June 30, 1934, Washington, 1932, pp. VI, VII, VIII, and XI.

[69] Ibid., p. XVII.

period 1934–38 up to \$3,037,000,000.[70] The range in deficits during the spending-program period was from \$4,550,000,000 in 1936 to \$1,384,000,000 in 1938.

The theory underlying the unbalanced budgets of the period since 1933, in contrast with that which motivated Hoover in his attempt to keep income and outgo balanced yearly, is that economic conditions do not observe calendar dates but rise and fall in cycles of depression and prosperity of varying intensities and duration. In this modern day when Government policy and the private business economy are inextricably bound together for better or for worse, it is essential that the fiscal policy of the Government be dovetailed with the needs of the national economy. Thus, the services and aid of Government are sought in times of economic stress more than in times of widespread prosperity. But these are precisely the times when tax collections fall off and funds available to aid the people are smaller than in prosperous periods.

To attempt to balance the Federal Budget in such times is to weaken the very forces depended upon to keep the economy from skidding further into depression. Hoover's proposals for balancing the 1933–34 Budget are an excellent example of this effect, for he not only attempted to reduce expenditures by cutting the pay rolls and otherwise limiting mass purchasing power on which the economy depended, but he proposed to further curtail purchasing power by the imposition of a general sales tax whose regressive effects would have been felt by business generally and by the masses of consuming citizens already suffering most from the depression.[71]

A cyclical budget has been in use in the Scandinavian countries for some time, with conspicuous success in Sweden. It requires that Government fiscal policy operate to compensate for oscillations in the private sector of the economy. On the downswing of the cycle, Government activity is increased in order to moderate and offset the decline in business activity; on the upswing Government activities are tapered off to permit the private sector of the economy to achieve its fullest measure of success. Budgets are purposely unbalanced during the downswing of the cycle, when purchasing power must not be destroyed by increased tax collections, large borrowings are paid out through public works and Government activities in order to maintain economic well-being. Then, as the private sector of the economy recovers, income and other profit taxes are increased, revenues grow as the national income mounts, and emergency expenditures for relief and public works are reduced, so that the excess revenue is devoted to the payment of the national debt.

This description fits the financial operations of many of the most successful private business concerns, for private business operates its capital structure on a long-term basis. The day of continually balanced books in private corporations has long since passed, and the requirements of modern business life are such that period book balancing is essential. Yet, the very businessmen who engage in such sound business practices deplore the same procedure by the Federal Government.

[70] National Industrial Conference Board, Economic Record, August 1939, p. 71.

[71] Gerhard Colm, The Basis of Federal Fiscal Policy, Taxes, Commerce Clearing House, Chicago, Ill., June 1939, discussed the theory of the balanced budget, saying, in summary, "If sound fiscal policy is defined as one consistent with sound economic policy, then no principle of public finance has been violated so much as the dogma that 'sound' fiscal policy requires a balanced budget."

The distinction is made that private business has owners, to whom management is responsible, and that deferment of private debt payment is not a hazard to the general economy. Government, on the other hand, is often irresponsible, its ownership is widely diffused, and it pays its debts, not from the business take, but out of extractions from the public purse. Furthermore, one Government administration tends to place all the blame for unbalanced Budgets on the other political party, to employ such budgetary conditions for momentary political advantage, and to use a "bread and circus" program to obtain political support regardless of its accumulation of large debts which must be met at some future time.

While the Federal Government should gear its fiscal policy and tax practices to changes in economic conditions, it must be remembered that approximately half of the revenues raised in the United States are State and local levies. The tax sources of local governments are too restricted and rigid to permit much experimentation with a local tax program intended to match the cyclical changes of the general economy, although even on this level more can and should be done to obtain the most desirable economic effects from taxation. In this connection, the plan proposed by William Stanley Parker of the Massachusetts State Planning Board has much merit.[72] He noted that city and town expenditures are approximately half of all public-works expenditures, hence what is accomplished to stabilize them over good and bad economic times will be most beneficial.

The Parker proposal includes making Federal grants available to localities only if they adopt a stabilization program for public works. The local governments would be required to establish an account into which would be deposited each year a stated percentage of the total estimated expenditures for that year, this fund to be held in negotiable municipal and other government bonds. This building up of a reserve would go on yearly. Then the problem arises when and under what circumstances withdrawals would take place. Mr. Parker has devised a formula which would remove these decisions from the realm of politics and place them on the basis of need for increased public works over the normal amount required yearly. The procedure is as follows:

A. Assessed values:	
Assessed value last year, *less* average assessed values 2 preceding years, *times* last year's tax rate	$------
B. Percent taxes collected:	
Percent of taxes collected last year *less* average percent collected 2 preceding years, *times* last year's assessed taxes	------
C. Welfare expenditures:	
Welfare average of 2 preceding years *less* welfare last year	------
Total	------

If the result of the foregoing formula is a plus amount for any year applied, then conditions are considered so favorable as to require no additional expenditures beyond the current allotments for public works. But if a minus figure is secured, that amount is withdrawn from the credit reserve account and added to the current income account to be used for public works, thereby reducing the amount to be assessed in taxes to carry on the works program.

Our national experience in attempting to set aside reserves for one purpose or another has not been entirely happy. Too often they have

72 The Commonwealth of Massachusetts, A Policy for Stabilizing Public Expenditures, Report of the Committee on Public Works, March 15, 1938.

been built up only to be wiped out by raids under the guise of pressing emergency. Moreover, Mr. Parker's proposal requires the investment of reserve funds in securities which are themselves subject to depreciation during the depressions when they are most needed. Nor is it at all certain that a reserve system can be set up large enough to meet the needs of a prolonged depression. The pile-up of quantities of capital funds in such reserves might in themselves hinder economic development during periods of rapid economic expansion.

State fiscal policies and tax systems are somewhat more flexible than those of local governments. But States cannot control individually enough of the whole economy to make their budgetary decisions of decisive importance. The taxable resources of States, while more nearly approximating those of the National Government in range, are limited by their boundaries.

Most States hesitate to enact a model tax program, lest bordering States lure their wealthy residents and enterprises away with tax reductions. Any drastic change in fiscal policy calling for periodic budget-balancing, or a double budget system of capital and operating accounts on a cyclical basis, intended to meet changing conditions in the economy, would subject any State to severe competition from other States.

There is relatively little continuity in political administration; many Governors are elected for 2- or 4-year terms and usually do not succeed themselves. Hence, long-range budgeting with regard to economic fluctuations rather than a continuation of annual or biennial budgets has little prospect of success. Furthermore, assumption by States of services formerly carried on by local governments and the added costs of welfare have greatly increased State budgets, while the lag in public action has continued archaic tax systems often yielding too little revenue to balance current expenditures. In this dilemma, States are torn asunder by embattled pressure groups, preventing any sound, long-range planning of fiscal policy.

The Federal Government must lead the way in this important use of the budget and tax programs to promote recovery. As James Harvey Rogers ably expressed the situation:

> As in depression total income declines, so in prosperity it increases. Moreover, as in a depression it is beneficial to the economy as a whole that falling incomes be bolstered by increasing outlays of the Government and by reduced contributions by the people to the Government; so, in prosperity it is equally beneficial to the economy as a whole that money incomes be damped by reducing Government expenditures and by increasing the payments of the people to the Government. In this way and in this way only—so far as economic investigation or good sense has revealed—can money incomes be maintained, can consumers' goods be made to flow in approximately full amounts to consumers, and can the wheels of industry be permitted to turn at any pace approaching that of full employment.[73]

Scientific budget construction is in its infancy in the United States. Detailed functional studies of departmental Budgets are almost nonexistent, and much work needs to be done before the Budget can be segregated into the two parts of current operations and capital or investment accounts. Yet such treatment is essential to any adequate program of long-range budgeting of Government expenditures. It is probably the best method of obtaining popular support for the economic use of fiscal operations. The current-expense budget would cover all, or nearly all, items of customary budgeting. The

[73] James Harvey Rogers, Capitalism in Crisis, Yale University Press, New Haven, 1938, pp. 46–47.

capital or investment account would provide for the items which so greatly increase costs during economic emergencies, such as unemployment relief beyond the customary welfare expenditures, or highways and waterways construction intended to add substantially to capital investment and provide employment during a depression.

Such a procedure is not simple, either in theory or practice, and only through trial and error methods could it be developed to yield maximum results. But the Swedish Government has found it very satisfactory as it permits current budget balancing of normal expenses, and cyclical balancing of investment or capital accounts. The experts meeting in the Chicago Round Table discussion of this topic listed the following as types of expenditures which should be included in the cyclical budget and not financed through current tax revenues during depression: [74]

1. Nonrecurrent emergency expenditures.
2. Loans and investments.
3. Expenditures for public works.
4. Permanent appropriations not to be spent during the current fiscal year.
5. Public debt retirements.

Federal budgeting has always been planless. Had the Government followed any sound plan of cyclical budget balancing, it would have entered the depression of the 1930's in a much stronger position to cope with the staggering costs incurred without plunging so deeply into debt. As the Chicago University experts so well pointed out:

> Part of the debt problem in the United States today is due to the errors of the Mellon regime, which reduced debt retirement and stimulated a boom at the very moment when debt liquidation and restriction of speculative effervescence were desirable.[75]

Those who oppose cyclical budgeting argue that deficits are easier to accumulate than to pay off, and that the unpopularity of higher-tax, lower-expenditure politicians during prosperous times renders cyclical budget balancing especially difficult to achieve. It follows, naturally, from these assumptions that continued unbalanced budgets mean much heavier burdens on the coming generations. Dr. Rogers brushes aside this view:

> To one particular claim of the extreme budget balancers, vigorous protests must be registered. That the building up of a large public debt at this time, or any other, will load future generations with a correspondingly heavy burden is a pure illusion. Each generation lives on the current production of consumers' goods and services of that generation. Whether our sons and grandsons live well or ill will depend on what kind of production system we pass on to them and how equitable a distribution system they manage to install in order to get the goods distributed to them. The size of the public debt will influence their lives as it does ours, primarily, by affecting the distribution of the total national income. The holders of the Government bonds will find their income increased by the interest payment on them, and these interest payments will come presumably then, as now, from the revenues of the Government collected more or less as now through taxes and other contributions required of the public. This particular aspect of the national-debt problem gives grounds for no great fears.[76]

Much more will be heard on this topic of the annual versus the cyclical budget in the years to come. For the time being, both major

[74] Public Policy Pamphlet, Balancing the Budget, University of Chicago Press, July 1937. Signed by Frank Bane, Paul Betters, Carl Chatters, Paul H. Douglas, Simeon E. Leland, H. A. Millis, Clarence E. Ridley, H. C. Simons, Donald Slesinger, Jacob Viner, and L. D. White.

[75] Ibid., p. iii.

[76] James Harvey Rogers, op. cit., pp. 48-49.

political parties have laid the subject away, and even in the heat of a Presidential campaign year little is said about it. Neither party could safely propose a completely pay-as-you-go preparedness program, even if it were economically sound, for their constituents would never consent to bear the taxes required. The only other alternative in the face of an immediate need for very substantial revenues is to raise the debt limit and borrow extensively. This has already been done in part, without any serious party opposition, and increased borrowing will probably be resorted to for a large part of the cost of military preparedness.

Such a procedure, however, does not forever remove the necessity of long-range planning of Government expenditures and revenues. Nothing has happened to alter the pressing need for a cyclical approach to budget making and tax reform. Therefore, when the economy becomes more settled, and the preparedness program has been accepted as an integral, perhaps dominant, part of Federal expenditures, a decision on this most important advance in governmental policy will have to be made.

THE PREPAREDNESS PROGRAM AND TAXATION

As this is being written in the summer of 1940, fundamental changes occur daily all over the world, influencing whatever judgments and proposals are made concerning the relationships of fiscal policy and taxation to the preparedness program. The United States Congress has already raised the debt limit from $45,000,000,000 to $49,000,000,000, and levied various taxes calculated to produce slightly more than $6,500,000,000 during the fiscal year ending June 1941. It seems clear that this is only a beginning, no matter which of several probable alternatives is taken.

There are at least four possibilities to be pursued. The first presumes immediate or early participation in the war in Europe. If this participation is to succeed, it can no longer take the form of supplies and equipment alone, for the casualties already suffered and the need for aviators and skilled ground crews will mean the use of men as well. This alternative involves the fullest use of our economic and military forces.

The second alternative differs from the first only in point of time. It presumes that the Germans and Italians will be unable to subdue England immediately following their success in France, and the war will be prolonged through another year. In that event, it is highly probable that the United States would enter the conflict on the side of the Allies. The conflict would be carried on in Europe and again the fullest use of all our resources would be essential for ultimate success.

The third alternative facing the United States presumes that no matter what the outcome of the European conflict may be, this Nation will not enter it, but will devote its energies to a defense program. There are several variations of the defense program under review, each dependent upon many factors. One presumes defense of the Western Hemisphere, in furtherance of the Monroe Doctrine, and as the easiest, least expensive, and strongest defense that could be made against the totalitarian powers. The second envisages the preparedness and defense of only a part of the Western Hemisphere, possibly some distance beyond the Panama Canal. The third is based on a defense of the boundaries of the United States, and possibly including Canada.

There is a fourth alternative which also has several variations. That is the possibility, remote at present, that the totalitarian powers will be defeated in Europe without our intervention, in which event the problem of continued preparedness in this country would depend upon the nature and decisiveness of the defeat, and the possibility of a prolonged peace which would permit us to reduce our armament program to pre-war dimensions.

These various alternatives affect fiscal policy and taxation. All of them require the fullest use of our manpower and resources. They imply a focusing of national policy on building our military and naval

forces up to a point where they can successfully withstand armed invasion, and ultimately defeat the totalitarian powers. Short of such a defeat, there is little prospect of ever again being able to establish a peacetime economy in which military preparedness recedes to insignificance.

To continue throughout a period of years in a state of armed preparedness on such a scale as to be able to repel massed invasion on a moment's notice will mean a radical reorganization of the economy and all of its forces, including the entire tax structure. No detailed blueprint of such an altered tax structure can be made at this time, for the outline which the economy will take is not visible. It will necessarily be built on the experiences we have accumulated, which makes this analysis of importance as a reference and guide, even though the actual system to be evolved may differ radically from the present one.

War and military preparation are not new phenomena in the United States. Occasionally, for relatively brief periods, they have completely dominated our economy, and long after the cessation of active warfare they have continued to influence the peacetime economy. In this connection, table 69 shows the average annual Federal expenditures for the 10-year periods preceding and following wars in which the United States has been engaged.

TABLE 69.—*Average annual Federal expenditures for the 10 years preceding and following the major wars of the United States*

[In millions of dollars]

	10 years preceding war	10 years following close of war
War of 1812 (ended 1815)	9.0	19.3
Mexican War (1846–48)	26.2	55.3
Civil War (1861–65)	60.1	332.5
Spanish-American War (1898)	342.1	561.2
World War (1917–19)	696.9	3,914.1

Source: Harold M. Groves, Financing Government, New York, 1939, p. 527.

This table shows the aftermath of successful wars, in which the outcomes have been decisive enough to let us lay aside plans for continued preparedness and devote ourselves and our resources to the furtherance of peacetime activities.

As was shown in chart 5, page 59, military expenditures have played an important role in Federal budgets ever since World War I, so that in effect the economy has never been free from the influence of military preparedness or the costs of war since 1916. In table 70, chart 48, the data are arranged somewhat differently. These are peacetime expenditures for military purposes, segregated into payments for national defense, veterans' pensions and benefits, and interest on that part of the national debt incurred for military purposes. Since 1933, increasing attention has been given to preparedness. The amount thus spent rose from slightly less than $500,000,000 in 1934 to a little over $1,000,000,000 in 1939. Yet even this large increase is dwarfed by the allotments already made for 1940–41, and those which undoubtedly will be made in an effort to prepare either against an assault or for a possible offensive against the totalitarian powers.

TABLE 70.—*Expenditures for military purposes by the United States for selected years 1915–39*

[In millions of dollars]

Class of expenditure	1915	1925	1932	1933	1934	1935	1936	1937	1938	1939 [3]
National defense	260	549	664	633	494	663	880	895	980	1,017
Veterans' pensions and benefits	176	656	973	849	554	604	2,348	1,128	572	540
Interest on public debt [1]	23	890	461	459	419	429	333	357	374	356
Total	459	2,095	2,098	1,941	1,467	1,696	3,561	2,380	1,926	1,913
Total expenditures [2]	1,048	3,345	4,535	3,864	6,011	7,010	8,666	8,442	7,691	9,492
	Percent									
National defense	24.8	16.4	14.6	16.4	8.2	9.5	10.2	10.6	12.8	10.7
Veterans' pensions and benefits	16.8	19.6	21.5	21.9	9.2	8.6	27.1	13.4	7.5	5.7
Interest on public debt [1]	2.2	26.6	10.2	11.9	7.0	6.1	3.8	4.2	4.9	3.7
Total	43.8	62.6	46.3	50.2	24.4	24.2	41.1	28.2	25.2	20.1
Total expenditures [2]	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] The total interest payments for 1915 and 1925 were assumed to be interest on war debts, although a very small proportion of the outstanding debt was for other than war purposes. The interest figures for 1932 to 1939, inclusive, are an approximation obtained by attributing to war debts the percentage of the total interest payments for the year that the outstanding war debt was to the total net debt. The war-debt figure (about $15,000,000,000) used for this entire period was the estimate of the National Industrial Conference Board. This approximation of the proportion of interest payments attributable to military purposes is undoubtedly an understatement because the interest rates on the war debt incurred during and after the last war are higher than the average interest rate paid on Government borrowing since 1932.

[2] Exclusive of debt retirement.

[3] Estimated amounts from the 1939 Budget. Actual appropriation may be more or less than these estimates.

Source: Harold M. Groves, Financing Government, Henry Holt, New York, 1939, p. 528.

The table emphasizes the weight of military expenditures in the total Budget, whether in war or peace. In 1915 almost 44 percent of the Federal Budget went for military activities, and even in the greatly enlarged Budget of 1939, 20 percent was so spent. There is no such thing as an economy whose efforts are devoted singly to peace or war, for the activities of both overlap, coincide, or are superimposed one on the other. But national policy can determine which sector of the economy shall have the go-ahead signal, and which shall be subordinated to the other.

The New Deal has deliberately used fiscal policy and public expenditures to promote peacetime recovery, and these efforts cannot be neglected or lost sight of just because national policy now and for some time to come will be focused on military preparedness on a colossal scale. Preparedness is not an end in itself, nor can a preparedness economy become a substitute in a democracy for peacetime recovery and prosperity. Should such a fundamental shift in purpose occur, we would have a militarized nation with military objectives, both of which on a long-term basis are inimical to the development of democracy. This difference in purpose between the United States and the totalitarian nations complicates the problems confronting us.

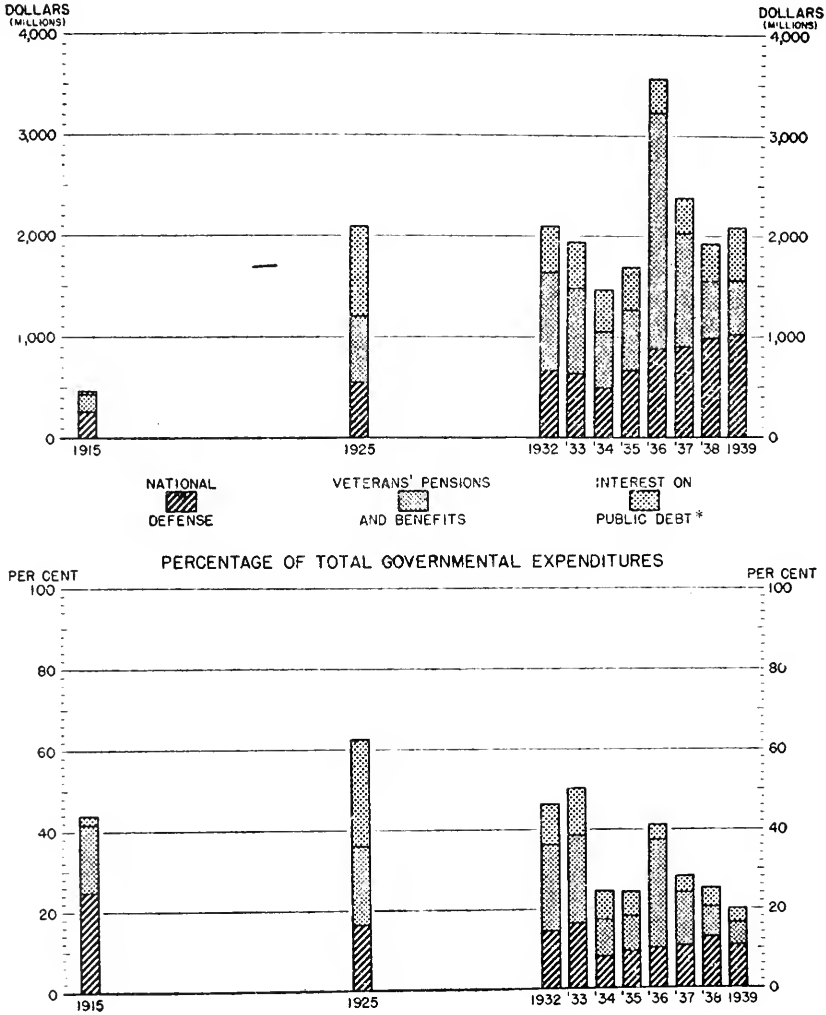
Extensive military activities in this country are emergency features of an economy whose true and long range objectives are directed toward peaceful social-economic development. When they become the dominant necessity, it is presumed that they will remain so only for the duration of the emergency. When the emergency is past, the country will still be confronted with the problems of a matured

CHART 47

EXPENDITURES FOR MILITARY PURPOSES

UNITED STATES GOVERNMENT FOR SELECTED YEARS

1915-1939



SOURCE: Groves, Harold M., FINANCING GOVERNMENT, New York, 1939, p 528

*See Note "a" - Table on Expenditures for Military Purposes

economy in which an advanced technological development has caused pronounced maladjustments in the use of the manpower, capital, and resources of the Nation.

The American people must keep before them this dual purpose of maintaining the basis of democracy and at the same time immediately developing an adequate national defense, no matter how serious the crises through which they pass, for they gain little by defeating totalitarianism abroad if they lose democracy at home.

Nonetheless, the requirements of the preparedness program will tax every resource at our command. A modern mechanized defense program will cost many billions of dollars. In Germany, where the entire economy has been pointed toward military preparations since 1935, direct military expenditures have grown from $2,600,000,000 in that year to $4,400,000,000 in 1938;[77] totaling $14,600,000,000 for the 4-year period. In the same period the United States has spent $3,934,000,000 on military activity.

Experts in military science are unwilling to risk an estimate of the cost of providing an adequate modern defense, because of the incalculables involved. But many agree that a sound preparedness program will undoubtedly exceed the costs we incurred in World War No, 1, when our total military expenditures were $32,048,000,000 and the costs resulting directly from the war added another $18,-830,000,000 for the period 1917–21.[78] If this reckoning be sound, then we face a minimum program of $50,000,000,000 for military activities. A prolonged conflict, or even a long continuance of the preparedness program and defense activities, would bring these approximations of cost far short of actual expenditures.

There is some talk of gearing our national economy to a defense program totaling $100,000,000,000, but even the conservative estimate of half that amount requires a radical revision of internal economic policy, touching practically every aspect of our national life. Such a preparedness program requires the fullest use of our manpower, our natural and developed resources, our equipment, and our capital. In terms of such magnitude, appropriations of a few billion dollars and the efforts to fund the preparedness program on a pay-as-you-go basis are pigmy attempts to master a giant.

The realization is growing that this is no ordinary war, but a desperate struggle for survival of the American people and the democratic way of life against a totalitarian philosophy and a state which is ruthlessly imposing its will upon nation after nation. To be successful against such forces we must revamp our social structure and reshape our economic practices. In doing so fiscal policy and taxation become a vital instrumentality. Several plans have been proposed which require careful consideration.

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[77] These are estimated figures which undoubtedly understate the case considerably, as they cannot take into account all changes in currency values, internal purchasing power, etc. Also, comprehensive summaries are not available. Moreover, Germany devoted its entire economic resources to the military program, so that these direct expenditures are probably only a minor part of the cost of equipping the German military machine to its level of 1940 efficiency. The figures are taken from Groves, Financing Government, op. cit., p. 530.

[78] Leo M. Cherne, Adjusting Your Business to War, Tax Research Institute of America, New York, 1939, pp. 6–7. The figures cited are from a balance sheet of World War expenditures constructed by the International Business Machines Corporation.

THE TAX EXPERIENCE OF WORLD WAR I

World War I broke out in Europe in 1914 at a time when depressed economic conditions in the United States had caused widespread unemployment; steel production was at 30 percent of capacity, and a third of American railroads were insolvent.[79] By the end of the winter of 1914–15 this paralysis of our economic life had passed, and foreign orders were coming in rapidly. The war had been under way almost 3 years when the United States entered on the side of the Allies. In April 1917 Congress passed a war budget of $5,000,000,000, $3,000,000,000 of which went into mobilization activities and $2,000,000,000 was loaned to the Allies for purchases in this country. The sums were almost immediately found inadequate, and by June 30 approximately $15,000,000,000 had been appropriated.

The injection of these vast military expenditures caused serious dislocations in the economy, such as bidding for workers and goods and inflationary conditions generally. By November 1918 the wholesale price level was double that of July 1914, and the disastrous effects of an uncontrolled inflation were in full swing. Both the public generally and its leaders were bewildered by the rapid changes which occurred in the economy, and almost no one understood the possible role of taxation and fiscal policy in palliating the effects of the inflation-deflation spirals.

The first national income tax was inaugurated in 1913. It was unfamiliar, contained large loopholes, and did not immediately assume a firm place in the fiscal system of the Nation. No further revenue measures were enacted until 1916, and the experience of the intervening years was colored by domestic and foreign chaos and war. But increased Federal Budgets necessitated substantial revisions in tax laws, which largely took the form of changed rates on individual and corporate incomes.

The Revenue Act of 1916 provided certain rudimentary forms of an excess-profits tax. The Secretary of the Treasury was allowed to determine when, in his judgment, the profits of a corporation were unreasonable, and it was then necessary for individual stockholders to list for income taxation their pro rata share of such gains as if they had been received in dividends. A special tax of 12½ percent of net profits was levied on manufacturers engaged direcly in making and selling munitions and other articles of war. Certain occupational taxes were imposed on brokers, proprietors of amusement places, and manufacturers of tobacco products. These taxes were calculated to provide the increased Federal revenues required and to prevent undesirable economic consequences from war business. It is a matter of record that it did not accomplish either purpose, but this fumbling beginning was the basis for further tax reforms and still remains as the substantial core of the Federal tax system.

The war period witnessed the enactment of a series of Federal revenue laws, each seeking to obtain more revenue to defray the costs of government, which constantly leaped ahead of tax receipts. There was increasing concern, also, over inflation and the rapid growth in war-profits fortunes.

In addition to already existing revenue laws, a special preparedness fund was passed in March 1917, providing an excess-profits tax on

[79] Ibid., p. 172.

corporations and partnerships and an additional estates tax. The former provided a tax of 8 percent of the amount by which net income exceeded $5,000 and 8 percent of the actual capital invested in the business. Invested capital was calculated as follows: actual cash paid in; actual cash value, at time of payment, of assets other than cash; paid-in or earned surplus; and undivided profits used in the business. The estates tax raised the 1916 rates, the rate structure ranging from 1½ percent of net estates exceeding $50,000 to 15 percent of amounts above $5,000,000. While receipts from this act raised considerably more revenue than the 1916 act, they were still utterly insufficient to meet the increased costs of mobilization and other Federal expenditures.

The second revenue act of 1917, passed in October of that year, is generally referred to as the War Revenue Act. It frankly recognized the unusual conditions of wartime and sought to make those profiting from war activities bear a larger share of the costs of war. The normal tax on personal incomes was raised from 2 to 4 percent. The exemptions of $1,000 for single persons and $2,000 for married couples was allowed for the normal tax but did not apply to surtaxes. Many of the changes made at that time have been regarded as fundamental to the personal income-tax structure ever since. Surtaxes were imposed, ranging from 1 to 50 percent. Corporations were taxed 6 percent on net income, instead of 2 percent as in 1916.

The special feature of the wartime taxation was an excess-profits tax levied on corporations, partnerships, and individual businessmen. Domestic corporations were permitted an initial exemption of $3,000 and a further exemption of not less than 7 percent nor more than 9 percent of the invested capital for the taxable year.[80]

An undistributed-profits tax was included in the War Revenue Act. In addition to all other taxes, a 10-percent tax was levied on all net income remaining undistributed in corporation treasuries 6 months after the end of the fiscal or calendar year.

The Revenue Act of 1918, the final wartime revenue measure, was actually passed in February 1919. The income features of the act applied to the calendar year 1918 and to fiscal years ending within that calendar year.

The normal tax was 6 percent on the first $4,000 of personal net income subject to tax, and 12 percent on net income subject to tax above that amount. The surtax rates began at 1 percent on net income in excess of $5,000 and advanced to 65 percent on net income in excess of $1,000,000.[81]

The corporation-income tax was also increased in the 1918 act. The levy was 12 percent on taxable income. Domestic corporations were given a statutory exemption of $2,000 and allowed tax credits for war- and excess-profits taxes paid or accrued, as well as interest received from Federal obligations, and dividends from domestic corporations other than personal-service corporations. In addition to this income tax, corporations were obliged to pay a war-profits and an excess-profits tax. The excess-profits tax was 65 percent of the income in excess of 20 percent of the invested capital of the corporation for the year. Corporations whose income did not exceed 20 percent of the

[80] Leo Cherne, op. cit., p. 219. The exact percentage used within the range 7 to 9 percent was equal to the proportion that the average annual net income during the pre-war years 1911, 1912, and 1913 bear to the invested capital for the same period of time.

[81] Ibid., p. 220.

invested capital were taxed 30 percent of their net income exceeding excess-profits credits. The calculation of the credits and computation of average invested capital led to much dispute and interfered with the effectiveness of the statute.[82]

The war-profits tax was based on a specific exemption of $3,000 plus the average net income for the pre-war years 1911–13. When the corporation had no net income for that period, or the average income was less than 10 percent of the invested capital for the taxable year, the credit allowed was $3,000 plus 10 percent of the invested capital for the taxable year. The war-profits tax applied after these exemptions and credits was limited to 30 percent of the net income between $3,000 and $20,000, and 80 percent of the net income over $20,000.

In addition to these revisions and extensions of previous statutes, the 1918 act levied a capital stock tax of $1 on each $1,000 of fair average value of capital stock, with an exemption of $5,000. The estates tax was revised, with rates ranging from 1 to 25 percent on taxable estates. Taxes on transportation tickets, insurance payments, amusements, and luxuries were imposed, along with many other nuisance levies.[83]

This combination of taxes was never adequate to meet the costs of war, to prevent the undesirable enrichment of war profiteers, or to prevent or retard inflation and its disastrous consequences. The revenue program of World War I must be put down as a failure. As Bernard M. Baruch, former Chairman of the War Industries Board, summarized the situation:

> Inflation enormously increases the cost of war and multiplies burdens on the backs of generations yet to come. The war debt of the Nation is necessarily incurred in terms of debased dollar values. In the inevitable post-war deflation the debt, of course, remains at the inflated figure. Thus, the bonds that our Government sold in the World War for 50-cent dollars must be paid through the years by taxes levied in 100-cent dollars. For example, our total war expenditure was $39,000,000,000 incurred in terms of 1917, 1918, 1919, and 1920 dollars. In terms of the purchasing power of 1913 dollars it would have been only $13,000,000,000, or in terms of 1930 dollars probably not more than $15,000,000,000. Such a grotesque result would be almost unbelievable were the figures not living facts. If anything can be done to avoid this practical doubling of the economic burden of war, certainly we should spare no effort to accomplish it.[84]

Congress has from time to time held prolonged hearings, seeking to profit by the disastrous experiences of the first World War, and has collected a body of factual data and comprehensive conclusions in the reports of the War Policies Commission in 1931 and the munitions investigation of 1935.[85] Yet these appear to have been blithely disregarded in formulating the revenue program to defray the costs of preparedness in June 1940.[86]

THE KEYNES PLAN

The British economist, John Maynard Keynes, has developed a plan for a fiscal policy and tax system which he believes necessary in a democracy in order to meet the problems of a wartime economy.[87]

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[82] Ibid., p. 222.
[83] Ibid., p. 223.
[84] Hearings before the War Policies Commission, 71st Cong., 2d sess., p. 33.
[85] Ibid., and hearings before the Special Committee Investigating the Munitions Industry, Senate, 74th Cong., 1st sess.
[86] See sec. 3.
[87] How to Pay for the War, Harcourt, Brace, New York, 1940.

He assumes, reasonably, that the total output of the Nation must be as large as the fullest use of its manpower, capital, and material resources will permit; that war needs have priority over other needs, but that a balanced economy is vital, providing for both the civilian and military sectors, to the utmost limits of capacity.

Such a situation is vastly different from a peacetime economy in which the amount of goods in the market place is largely governed by the money in the pockets of the purchasing public. Here the supply of goods depends not so much on demand as on effective organization of those resources of the Nation which are not used in the making of war. When full capacity is reached, actual unemployment disappears, and the amount of goods available for civilian consumption is what is left after the war machine has been provided for.

In wartime, money earnings as a whole increase substantially, but the goods available to the civilian sector of the economy increase more slowly, and in many instances actually decrease. The increased emphasis on production, principally of war goods, calls for maximum employment, enlarging the pay envelope available to consumer units, through increased wages and employment. Bulging pockets in a market where the kinds and amount of goods are restricted, inevitably means higher prices. If this situation is not controlled, the inflationary spiral results, prices rise more rapidly than wages, and profiteers grow rich on the "take." The tax system cannot be made to keep pace with these forces, and as they accelerate it lags further behind, quickly proving itself unable to provide needed revenues on a pay-as-you-go basis, or to control the inflation.

In Keynes' opinion, only a many-sided plan can hope to cope with this complex situation. As he says, "The aim * * * is to devise a means of adapting the distributive system of a free community to the limitations of war." [88] He offers three main objectives:

1. Provision of an increased reward as an incentive, and recognition of increased effort and risk, to which free men, unlike slaves, are entitled.
2. The maximum freedom of choice to each individual, as to his use of that part of his income which he is at liberty to spend, a freedom which properly belongs to independent personalities, but not to the units in a totalitarian ant heap.
3. Mitigation of the necessary sacrifice for those least able to bear it, a use of valuable resources which a ruthless power avoids.

Keynes' plan for achieving these objectives under conditions of war financing has four interrelated elements:

1. The withdrawal from immediate consumption of a part of each individual's income, so as to prevent overaccumulations of funds in the hands of consumers. This withdrawal will take the form of forced loans, which the government will take, obligating itself to return them with interest at some time following the close of war when the depressed conditions of the economy will be greatly benefited from the increased purchasing power thus made available.
2. The funds thus collected during the war and used by the government for wartime purposes will be paid after the war by a

[88] Ibid, p. 7.

capital levy which will make it unnecessary to burden the nation with a staggering debt.

3. Recognizing the condition of many people whose low incomes do not permit further withdrawals for deferred payment funds, an exempt minimum is provided, a sharply progressive scale of deferred payments based on increments of income is used, and a system of family allowances made to ease the burden on those who have no satisfactory margin above the barest necessities of life.

4. Provision of an "iron ration" of absolute necessities which will not be permitted to vary in cost or consumption as general prices change.

The "timing" in this bold proposal is left up to the Government, which shall determine from general economic conditions when to release funds from the deferred-payment accounts, in the inevitable depression following the war. The passage of a capital levy would be up to the Parliament in power during that post-war period. Its size would be determined by the amount of debt incurred to finance the war, and the forced loans to be repaid.

A capital levy made during the war to finance it cannot prevent inflation through curtailing purchasing power and lessening the demand for consumers' goods, for it does not divert such mass purchasing power. After the war is over, however, it provides an immediate means of paying off the war debt, distributes purchasing power among the consuming public, and reduces savings in a period of constriction of the investment market when they would inevitably remain idle. Also, it redistributes wealth on a more equitable basis.

What are the alternatives confronting the British nation? As Keynes points out, the so-called "normal" methods of meeting wartime needs are a combination of stiff taxation along accepted lines, voluntary savings stimulated by active propaganda, and sufficient inflation to raise income to the level needed to produce high tax yields and large savings. Then, by withdrawing an adequate amount of potential consumers' purchasing power through taxation and borrowings, the force which otherwise would irresistibly raise prices and bring on the inflationary spiral can be controlled. But Keynes believes it is impossible to achieve this, and at the same time preserve the best objectives of a democracy in wartime. The controls necessary for this method of preventing inflation deny the basic objectives of democracy. If strict controls are not established, the inflationary spirals cannot be prevented.

Germany has apparently been successful in enforcing a wartime fiscal policy which has prevented inflation and at the same time provided the nation with the resources needed to wage a successful war. But she has done so through the imposition of drastic controls, including a comprehensive system of rationing and frozen prices, a system of direct deductions from wages for social and governmental purposes, and a complete regimentation of workers, management, and owners of business. But Germany is a totalitarian state which mocks the weaknesses of democracy and its inability to marshal its economic forces for successful war activities. Germany, furthermore, has no obligation to preserve any measure of free enterprise or individual choice. To adopt her policies would be to deny the very essentials of democracy.

Probably the soundest criticism to be leveled at the Keynes plan is that it involves drastic changes of fiscal policy and taxation, so radical in comparison with the customary procedures as to appear revolutionary. Whether anything short of such drastic changes will suffice can be proved only by experience. It is hardly likely that the Keynes plan will be adopted, however, not only because of its complexity, but because it involves great sacrifices of wealth, and much foresight and abstinence on the part of the whole population. Even the stress of war seems insufficient to force such widespread changes in public policy.

THE FLYNN PLAN

The Senate committee investigating the munitions industry devoted considerable time to the study of wartime taxation and price control, with John T. Flynn, noted publicist and authority on finance, as consultant to the committee. He is largely responsible for a plan which seeks to defray the cost of war on a pay-as-you-go basis, thereby removing the forces which cause inflation and its evils.[89]

Senator Arthur Vandenberg, member of the committee, stated Flynn's fundamental thesis succinctly as follows:

> It is proposed to strike at the economic heart of the war profit by the simple fundamental device of requiring that no future war be fought on borrowed money, but should be paid for substantially by current taxes. It is the process of making war on borrowed money which primarily creates the sinister inflation out of which grows:
> 1. The opportunity for swollen profits.
> 2. The economic dislocation of the war era.
> 3. The post-war calamity of deflation.[90]

The Flynn plan consists primarily of dependence on drastically revised corporate and personal income taxes. The former provides that corporation profits up to 6 percent of the capital value of such corporations will bear a 50-percent tax. An excess-profits tax of 100 percent will be levied on all profits above 6 percent. To cite Flynn's example, a corporation with an adjusted declared value of $100,000,000 makes $50,000,000 in a war year. Profits of 6 percent of the declared value, or $6,000,000, would be taxed at 50 percent, or $3,000,000. The remaining profits of $44,000,000 would be taxed at 100 percent. Thus this corporation would pay a total tax of $47,000,000, leaving it with a net profit after taxes during that war year of $3,000,000.

The personal income-tax changes proposed are also very drastic. The elaborate mechanism of normal and surtaxes is to be eliminated, and a rate structure imposed which does not permit even the topmost tax-free income to exceed $10,000. As Flynn says:

> That may look very drastic to the man who is making $50,000 now and who made $100,000 a year in the last war, but it ought not to be so bad, because, after all, you ought not to be accused of unreasonableness when you ask a man to run a factory for the same sum that you pay a general commanding in the field.[91]

In order to speed up the collections from these taxes, Flynn proposed that they be collected on a quarterly basis. He also advised requiring corporations to file with the Government a list of officers' salaries

[89] Hearings before the Special Committee Investigating the Munitions Industry, U. S. Senate, Part 22, Wartime Taxation and Price Control, 1935.
[90] Ibid., p. 6243.
[91] Ibid., p. 6186.

which could be published in case of any attempt to raise them unduly during the war period.

Several objections have been offered to Flynn's pay-as-you-go plan. One is that the enormous amounts immediately necessary for war expenditures cannot be made available through a tax program dependent on earnings and profits. Borrowings alone can provide such sums with dispatch. It may well be that in armchair contemplation of preparedness and war, the Flynn plan seems to possess unusual merits of controlling inflation and post-war deflation, but in such an emergency as now confronts us, we cannot wait for the slow accumulation of income-tax receipts. The realities of the situation oblige the Government to raise immediately many billions of dollars to capitalize and conduct a war economy. Flynn attempted to meet this need by suggesting short-term Government loans to anticipate tax collections.[92] But there is no evidence to support the view that even when the tax system is bringing in revenue, the returns will be at all sufficient to meet the requirements of preparedness and war, even though prices are controlled and war costs rigorously held down. Germany's experience, while not entirely clear, indicates that taxation even of the most oppressive kind was insufficient to equip a modern war machine, and entirely too meager to defray the costs of actual war operations. The sums used are so vast, and the war emergencies develop so rapidly, that money becomes immediately necessary if the outcome is to be successful. In these situations, the long view is usually and necessarily overlooked, and the emergencies are met as realistically as possible.

The corporation income taxes proposed by Flynn are much more severe than present rates. While he argues that they do not limit profit, but merely appropriate a very substantial part of the profits made, still they may well restrict incentive and make it necessary either to depend upon the most ardent patriotism of management and owners, or to establish some system of governmental control over operations which will raise production to the required wartime level in the time available. To take such chances is most hazardous. The War Department states:

> The attitude of the War Department with regard to war-profits taxation should be clearly understood by all those engaged in business in this country. The War Department does not look with disfavor upon war taxation to curb excessive profits, but merely takes the viewpoint that excess profits must not be curbed beyond a point where incentive to production will be removed. * * * It has always maintained that a war-tax measure must not impose so much of a burden on industry that the production of war munitions and materials might thereby be hampered, crippled, or even destroyed. It has recognized that excessive taxes might well result in a failure to produce sufficient munitions when needed and this would be paid for not in dollars and cents but in lives and the consequences of possible defeat.[93]

THE FLEXIBLE FINANCE PLAN

A number of experts have been working on the problem of developing a fiscal plan which would be geared to the several important changes occurring in the economy so that the maximum desirable effect might be produced. Among the many professional people who have done original research in this important field are Gerhard Colm,

[92] John T. Flynn, An Approach to the Problems of War Finance in Annals of the American Academy of Political and Social Science, January 1936, p. 222.
[93] Leo Cherne, op. cit., pp. 73, 213.

fiscal expert in the Bureau of the Budget; Alvin Hansen, professor of political science at Harvard University and advisor to the Federal Reserve Board; Marriner Eccles and his associates at the Federal Reserve Board; and Richard Gilbert, economist in the Department of Commerce.

There are at least three distinguishable and different phases of the fiscal program, each geared to fit a different aspect of the changing economic situation resulting from the emphasis on a preparedness program in our economy. Described by Colm and others, they are as follows:

1. *The beginning period.*—This is characterized by the present economic conditions of widespread unemployment, large unused resources of material, plant, and equipment. In this period, while the entire economy is still operating on a peacetime basis and with its attention focused on peacetime needs, the center of attention is shifted to military preparedness, and the demands of the peacetime civil sector of the society become secondary.

This initial period necessitates making great sums of money immediately available for plant expansion, part payment of industrial orders, reorganization of the military services, continuation and expansion of public works vital to preparedness and for which, later on, no surplus man-power will be available, large-scale projects for training skilled workers, and adjustments between the preparedness program and the requirements of the civil sector of the economy.

Neither the present tax system nor any proposed revisions which could be made immediately effective would bring in sufficient current revenue to meet the cost of initial expenditures for the preparedness program. On the present annual basis of returns, income-tax receipts would not be available until 1941, almost a year after the preparedness program has been started. Revenues from the excise features of the revenue act are too small to defray preparedness costs.

Borrowing becomes essential to meet the immediate needs of the preparedness program. In the present capital market such borrowings can be made on most favorable terms. The debt limit must be raised substantially to make this possible.

During this period of change-over to a preparedness economy, when full employment has not yet been attained, an increased excise-tax program adversely affects the buying power of the people, and it would be advisable to defer the collection of such excises until sometime in 1941, when the preparedness expenditures have raised the level of mass purchasing power.

2. *The second period.*—This second period, dependent upon several incalculable factors, is characterized by a very substantial measure of employment and use of our resources, principally for preparedness purposes. This period will probably be reached during 1941.

In this stage of developing the preparedness economy a large proportion of its costs should be paid for out of taxes on income and wealth. Care should be taken to avoid undesirable social consequences resulting from wartime profiteering and "millionaire-making," without setting up any barriers to the attainment of the central purpose of an adequate preparedness program.

Specifically, the rate structure of the personal income tax should be revised, with well-graduated rates, and the loopholes removed. Such loopholes seriously impair the income tax, and particularly in such a time of national emergency cannot be defended.

The deductions permitted in the Federal estates tax should be revised, and specific exemptions lowered. It is suggested that the initial allowance be $10,000.

A war excess-profits statute is essential. Colm suggests that it follow the provisions of H. R. 7645, Seventy-sixth Congress, where, after establishing a base period net income based upon average annual net income for 3 of the 4 years, 1935–38, rates are applied as follows:

Excess of income over base period:	*Tax rate, percent*
10 percent or less	10
10 to 25 percent	25
25 to 50 percent	50
Over 50 percent	75

Special amortization features should be provided to cover new investments in industries whose expansion facilitates the preparedness program.

3. *The third period.*—In this period of the preparedness economy full employment will have been achieved, the preparedness or actual war program will be under way, and the maximum resources of the economy will be in use, and incipient or actual scarcity will be noticeable. In this phase of the economy the pressure for price rises and inflation are to be expected.

Consequently, the fiscal policy and tax program should be made to fit these changed economic conditions as nearly as possible.

The personal income tax should be altered once more, broadening the tax base by lowering exemptions and increasing rates.

Depending on the economic situation at this time, the excess-profits tax should be revised to curtail profits drastically.

A selected list of commodities, including such things as automobiles, radios, gasoline, refrigerators, etc., which can be safely dispensed with, should be subjected to high excise taxes definitely intended to curtail mass luxury consumption, and the limitation of supply would beneficially affect the efforts devoted to the preparedness program.

A general "turn over" tax should be enacted, based on the "value added by manufacture," with tax credits allowed for Federal and State pay-roll taxes in force, and tax exemptions for the necessities of life. The proposed tax rate is 4 percent to begin with, but if more money is needed to supplement other revenues, then the rate should be advanced to obtain the required sum.

In all three periods it will probably be necessary to borrow, but such borrowings should be made so far as possible from financial institutions, in order to free their capital for social use. Under the incentives and impact of the fiscal and tax programs, the hoardings of individuals will in all likelihood be released in forms other than loans.

The fullest effect of this somewhat complicated tax program and fiscal policy cannot be achieved, providing vast sums of money as

needed and preventing undesirable effects on the economy, unless the program is closely geared to the entire administrative policy and defense program. As this must necessarily be under the supervision of the executive branch of Government, which is in the best position to know the needs of the moment, it seems desirable to have the Congress empower the Executive to apply one or another of these taxes and fiscal controls as they are required. A safeguard on such a wide grant of powers might be achieved in a provision for a financial commission to study the prevailing economic conditions and make forecasts of impending changes. This commission would advise the President as to the times suitable for the enforcement of one or another of the provisions mentioned here.

THE PREPAREDNESS AND WAR TAX PROPOSALS COMPARED

Four different sets of proposals, or plans, for fiscal policy and taxation during a preparedness or wartime period have been discussed, namely:

1. The congressional proposals.
2. The Keynes plan.
3. The Flynn plan.
4. The Flexible Finance plan.

Each has undoubted merits, each fails to meet certain important issues. But running through them all is the purpose of providing greatly enlarged revenues during this critical period, and at the same time using fiscal policy and taxation to regulate the economy, preventing as far as possible the chaotic aftermath of inflation-deflation and the further unbalance of the economy resulting from the accelerated concentration of wealth and income.

It is significant that in this emergency conservative tax experts, who normally consider sinful the use of taxation for any purpose except revenue, find themselves without popular support and either maintain a dismayed silence or begin to advocate taxation for regulation of the economy.

The tax proposals thus far enacted by Congress have been very hesitant attempts to meet the needs of a defense economy. They fall far short of providing the required revenues for the next fiscal year, they depend upon collections to be made at the very close of that year, and they involve much guesswork as to the amounts available at that time. The debt limit has been raised, but by too small an amount to permit the extensive borrowing immediately essential in launching a vigorous and thorough preparedness program. A mechanical 10-percent increase in all brackets of the income tax merely continues the old inequalities in rates, instead of providing the sound revision needed to force every income class to bear its rightful share of such taxes. The gaping loopholes through which some citizens escape their obligations are continued in these congressional proposals.

The various forms of "ability-to-pay" taxes—personal and corporate net income, gift, and estates—have not been coordinated for the greatest combined effectiveness. Emphasis on increased excise and sales taxes when unemployment and depressed purchasing power are widespread is unwise, and the immediate collection of large aggregate sums in such taxes will seriously hinder the recovery which is basic to a

successful attack on the problems of preparedness and a peacetime economic recovery.

On the credit side of the ledger, it can be noted that the Congress recognizes, as it did not in World War I, the dangers lurking in a policy of unlimited borrowing and inflationary prices. To counteract this danger it has levied much heavier taxes on the net earnings of individuals and businesses.

The Keynes plan possesses more theoretical than practical significance for us. Even in Britain, where the war has become a horrible reality calling for the utmost in personal and material sacrifice, there is little prospect of the adoption of such a complex and long-range proposal. Its dependence upon a post-war capital levy to reimburse those who have paid the costs of war through forced loans, thus revitalizing the waning purchasing power of the masses during deflation, seems quite hazardous and likely to defeat the entire plan. No one can control or obligate future parliaments or congresses. The great sacrifices made by all levels of the population during war, and the huge losses sustained by those formerly possessed of great wealth, make it doubtful that further confiscations of wealth during the chaotic period of post-war reconstruction can be enacted into law. Failing this, the very heart of the Keynes plan is gone.

Frankly facing the realities of the American situation, where State and local governments collect approximately half of all taxes in the United States, Federal fiscal and tax policy cannot overlook the interrelationships of the governments. It may be that the preparedness program will increase Federal taxes and expenditures to a point where they form 75 percent or more of all governmental budgets. Even so, however, State and local budgets will probably increase during this period of preparedness. Thus, the regressive and rigid character of State and local fiscal policies must be taken into account in planning a beneficial tax structure. None of the proposals or plans thus far offered consider this important factor.

Both the Flynn and Flexible Finance plans, while making use of taxes with which the American people have become reasonably familiar since the last war, recommend drastic rates to raise revenues establish as much of a pay-as-you-go program as possible, and prevent the accumulation and concentration of wartime profits. Whether the proposed rates are so drastic as to impair production and retard the defense program cannot be foreseen. But it may well be that in the initial stages of the preparedness program the tax burden should be considerably less severe than they propose, with a stepping up of rates as it becomes apparent that this is necessary and desirable. This does not mean, of course, that the income tax rates should be so low as to permit wartime profiteering, but it does insure that the primary objective of this period, the building of defenses, is not hindered by the tax program.

Those who prefer to proceed aimlessly with a patchwork system of taxation, without regard for the inflationary possibilities confronting us, will see in the intricacy of these plans, and in the necessary controls and timing, such complexity as to endanger the possibility of their success. They will prefer to go on in a pragmatic fashion, altering the fiscal policy and tax practice with changing circumstances. But it is this very procedure which spells defeat, which insures an inadequate tax system in times of emergency, and which renders more

clumsy and ineffective whatever price control mechanisms are established.

While the Flexible Finance plan seems more feasible than any of the others discussed, still there is a recognized difficulty in attempting to establish any single preconceived plan. This well-meshed mechanism of different taxes, with proper timing, is expected to reduce inflation to a controllable minimum. It is expected to maintain purchasing power at a reasonably high level, to direct the flow of purchases into desirable channels without imposing the totalitarian controls which destroy the essentials of democracy. It likewise stimulates development of the kind and amount of production required for an adequate defense program. The proposal depends for these desirable effects very largely on the time at which the various taxes are applied. The suggestion that this timing be left to a finance committee and the Chief Executive is difficult to attain, as judged by American politics and practices. The Congress is not likely to delegate such responsibilities short of the direst emergency, which does not now prevail and which, if it occurs, will probably come too late to permit effective timing of the tax mechanism.

In fact, although Congress is not following any clearly defined fiscal policy, it has already adopted a whole series of proposals which represent the groundwork of the structure which will be elaborated as time goes on. It is hardly likely, short of a radical change in the present situation, that so careful and thorough a plan as the Flexible Finance plan can be substituted for the pragmatic approach of Congress. It seems more practical in this emergency to try to fit the essentials of sound planning into the congressional acts, molding them as much as possible into a structure which will accomplish certain well-defined purposes. These purposes require the reorganization of the tax system on all governmental levels, integrating it into the needs of our modern economy, to aid in preparedness and in peacetime recovery.

The pay-as-you-go principle should be adopted as far as possible, but, even so, substantial borrowing will be necessary. Various nonfiscal devices are essential to prevent undue inflation and the aftermath of deflation, but the tax program can in itself help to prevent unusual accumulations of wealth and income, undue profits, and unwise use of increased purchasing power in the hands of some elements in the consuming population. If Congress and the administration time the imposition of various taxes wisely, they can do a great deal toward preventing both inflation and deflation.

It is argued by some, proceeding from an analysis of the present state of the economy with its vast number of unemployed and its idle resources of plant and equipment, that even a preparedness program spending $5,000,000,000 in the next year cannot make full use of these forces. They believe that the technological economy is so advanced that even the stress of war cannot immediately use all the employable labor force. Short of placing an army in the field, or expending considerably more than $5,000,000,000 on preparedness, they feel that the changes to be expected will take not more than

2,000,000 additional workers from the ranks of the unemployed during the coming year.[94]

It is true that even after 6 months of war England still had several hundred thousand unemployed on the dole. Much of this was due to faulty organization of the economy incident to getting a large wartime machine rolling. It is hardly to be expected that the United States will entirely escape this initial confusion, so that for some time to come the need of providing for the unemployed and the presence of unused equipment will confront us.

Nor can it be presumed that a disjointed and depression-ridden peacetime economy will automatically be cured by superimposing a preparedness economy on its faulty base. Many of the faults may be even more aggravated by this move.

Turning several billions of dollars of additional purchasing power into the economic stream will raise the level of national well-being considerably, but it will not produce full employment, generally diffused purshasing power, or complete use of plant and equipment. Certain bottlenecks and log-jams will be immediately noticeable in the economy, which if taken by themselves would present a distorted picture. But unless circumstances change so completely and quickly as to require the expenditure, say within the next 2 years, of $10,000,000,000 to $50,000,000,000, or some combination of events puts a substantial body of men under arms or removes them from the labor market, there is little prospect of relegating the requirements of the peacetime sector of the economy to the background. Under no circumstances can either the needs of preparedness to meet the present crisis or the requirements of a badly disrupted civil economy be neglected. In discussing fiscal policy and taxation, both aspects of our democratic economy must be considered.

[94] The Economic Outlook for June 1940, published by the Congress of Industrial Organizations, estimates that the war preparedness expenditures during the next year will provide jobs for 2,000,000 workers. The estimate of unemployed in April 1940 was 11,259,000. Thus, in terms of such reasoning, the problem of idle men and idle plants which has been the basis of so much of the discussion in this monograph has special significance.

TAX RECOMMENDATIONS

THE BASES OF REFORM

This monograph has attempted to present the principles underlying a sound fiscal policy and tax system, to trace the present program of expenditures and revenue collections, and to analyze the social-economic effects of taxation in the United States. Inevitably, any such critical appraisal as has been made here leads to a discussion of specific reforms which might improve fiscal policy and taxation. But rapid shifts in the economic situation may make irrelevant certain suggestions, and changes in tax statutes may render particular reforms unnecessary. Frequently, reform proposals depend on a chain of circumstances which, when broken up, requires abrupt shifts in the reforms suggested. These factors inhibit the offering of tax reforms through the medium of a monograph which may have a longer life than certain phases of the revenue system whose reform is sought. Tax reform is properly the subject of memoranda rather than of books.

Yet there are some tax reforms which, following the general theories laid down here, should be discussed specifically. Some who want fundamental revision of the fiscal system will be impatient with the piecemeal character of the reforms suggested. But a comprehensive program of change would have to be introduced over a long period. What appears essential is to lay out the agenda of taxation, based on a broad appraisal of economic conditions, trends, and estimates of future change. Thereafter, the timing of particular reforms would depend upon practical considerations.

No tax reform can proceed with confidence without considering the economic trends affecting Federal, State, and local governmental jurisdictions. It will be remembered that by 1938 the revenue system collected $14,811,000,000, of which 41 percent came from Federal sources, 26 percent from States, and 33 percent from local governments. Any major change in the tax structure of either of these three will seriously affect the other two, so inextricably are they bound together.

Some such changes are noticeable. General property, for example, has long been the basic support of local and State governments. Yet the economic life of the Nation has so altered, with waves of urbanization and suburbanization, with industry supplanting agriculture, that the property tax base no longer seems to respond to improved conditions in the general economy.

Table 71 offers summary data on general property taxes from 1915 to 1937. The peak yield was recorded in 1925, and since the trough of the depression in 1932 general property tax revenues declined more than 20 percent. This national condition obscures certain State trends. Property-tax yields in 14 States recovered from the low point in 1932, but the five largest gains made were the result of establishing selective property taxes, such as taxes on oil lands; and in two others rate increases accounted for the recovery.[95] Property tax revenues declined in 34 States after 1932.

[95] Bulletin of the Department of Commerce, Bureau of the Census, Washington, June 30, 1939. The reader will recall that general property taxation is recorded here for State revenue purposes only.

TABLE 71.—*State revenues from general and selective property taxes, 1937 and selected prior years*

[Dollar figures in thousands]

Geographic division and State	1937		1932		1930		1925		1919		1915	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
United States	$254,249	100.0	$320,440	100.0	$345,187	100.0	$358,602	100.0	$237,235	100.0	$185,876	100.0
New England	22,662	8.9	19,362	6.0	19,862	5.8	23,677	6.6	20,211	8.5	15,364	8.3
Maine	5,276	2.1	4,885	1.5	5,772	1.7	4,702	1.3	3,189	1.3	2,448	1.3
New Hampshire	2,869	1.1	2,812	.9	2,886	.8	2,278	.6	1,447	.6	1,345	.7
Vermont	[1] 424	.2	1,138	.4	1,211	.4	1,435	.4	1,483	.6	897	.5
Massachusetts	12,299	4.8	7,500	2.3	7,000	2.0	12,000	3.3	11,079	4.7	8,765	4.7
Rhode Island	14	.0	1,185	.4	1,263	.4	1,453	.5	893	.4	630	.3
Connecticut	1,781	.7	1,842	.6	1,729	.5	1,809	.5	2,119	.9	1,279	.7
Middle Atlantic	49,745	19.6	37,891	11.8	40,987	11.9	57,447	16.0	31,957	13.5	18,744	10.1
New York	2,160	.9	2,230	.7	1,826	.5	28,012	7.8	15,151	6.4	7,900	4.3
New Jersey	29,776	11.7	35,661	11.1	39,160	11.3	29,435	8.2	16,806	7.1	10,725	5.8
Pennsylvania	[2] 17,810	7.0									118	.1
East North Central	29,849	11.7	77,574	24.2	85,155	24.7	77,808	21.7	60,864	25.7	53,359	28.7
Ohio	[3] 6,182	2.4	2,007	.6	5,834	1.7	3,255	.9	3,918	1.7	6,287	3.4
Indiana	5,803	2.3	13,814	4.3	13,162	3.8	15,241	4.3	7,848	3.3	6,844	3.7
Illinois	1,770	.7	18,154	5.7	12,618	3.7	20,832	5.8	22,658	9.6	18,067	9.7
Michigan	[4] 9,920	3.9	36,060	11.3	41,502	12.0	25,037	7.0	15,583	6.6	11,615	6.2
Wisconsin	6,174	2.4	7,540	2.4	12,040	3.5	13,444	3.7	10,857	4.6	10,546	5.7
West North Central	46,129	18.1	45,843	14.3	47,656	13.8	55,704	15.5	30,090	12.6	23,406	12.6
Minnesota	17,880	7.0	9,921	3.1	8,987	2.6	15,573	4.3	6,874	2.9	6,140	3.3
Iowa	10,430	4.1	9,852	3.1	10,630	3.1	11,835	3.3	6,986	2.9	5,508	3.0
Missouri	6,065	2.4	5,889	1.8	5,914	1.7	4,725	1.3	3,369	1.4	2,554	1.4
North Dakota	1,951	.8	2,628	.8	3,131	.9	4,828	1.3	1,683	.7	1,329	.7
South Dakota	[5] 237	.1	4,304	1.3	5,186	1.5	4,126	1.2	2,618	1.1	1,155	.6
Nebraska	4,129	1.6	5,928	1.8	7,490	2.2	5,807	1.6	4,333	1.8	3,349	1.8
Kansas	5,436	2.1	7,320	2.3	6,318	1.8	8,810	2.5	4,226	1.8	3,371	1.8
South Atlantic	22,095	8.7	27,713	8.7	30,452	8.8	30,911	8.7	21,386	9.0	16,724	9.0
Delaware			3	.0	26	.0	581	.2				
Maryland	5,975	2.4	5,685	1.8	6,492	1.9	5,666	1.6	3,868	1.6	2,906	1.6
Virginia	[6] 3,763	1.5	3,480	1.1	3,932	1.1	7,070	2.0	3,565	1.5	3,234	1.7
West Virginia	1,746	.7	3,395	1.1	3,187	.9	2,978	.8	1,144	.5	1,120	.6

North Carolina	7 1,479	.6	3,306	1.0			4	.0	2,654	1.1	2,224	1.2
South Carolina	3,003	1.2	2,562	.8	2,744	.8	3,138	.9	2,667	1.1	1,621	.9
Georgia	3,817	1.5	5,869	1.8	6,457	1.9	6,060	1.7	4,741	2.0	3,919	2.1
Florida	2,312	.9	3,414	1.1	7,613	2.2	5,413	1.5	2,746	1.2	1,691	.9
East South Central	16,605	6.5	24,509	7.7	28,667	8.3	26,865	7.5	16,975	7.2	13,834	7.4
Kentucky	5,416	2.1	10,675	3.3	11,102	3.2	9,365	2.6	6,621	2.8	5,139	2.8
Tennessee	1,219	.5	894	.3	3,551	1.0	5,092	1.4	3,472	1.5	2,328	1.2
Alabama	6,253	2.5	7,970	2.5	8,040	2.3	6,703	1.9	4,359	1.8	3,755	2.0
Mississippi	3,717	1.5	4,970	1.6	5,974	1.7	5,705	1.6	2,524	1.1	2,612	1.4
West South Central	32,940	13.0	45,222	14.1	46,072	13.3	43,830	12.2	28,335	11.9	22,272	11.9
Arkansas	3,891	1.5	4,453	1.4	4,861	1.4	5,081	1.4	3,850	1.6	2,933	1.6
Louisiana	7,715	3.0	9,314	2.9	9,834	2.8	9,053	2.5	4,009	1.7	5,279	2.8
Oklahoma	142	.1	5,077	1.6	4,241	1.2	4,131	1.2	3,524	1.5	2,706	1.5
Texas	21,192	8.3	26,379	8.2	27,136	7.9	25,565	7.1	16,951	7.1	11,353	6.1
Mountain	17,697	7.0	24,954	7.8	27,332	7.9	23,116	6.4	16,329	6.9	9,785	5.3
Montana	2,239	.9	1,989	.6	2,010	.6	2,272	.6	1,678	.7	1,267	.7
Idaho	1,266	.5	2,457	.8	2,025	.6	2,286	.6	928	.4	991	.5
Wyoming	584	.2	1,988	.6	1,825	.5	1,326	.4	943	.4	591	.3
Colorado	3,468	1.4	4,951	1.5	5,888	1.7	5,844	1.6	3,909	1.6	1,598	.9
New Mexico	1,831	.7	1,926	.6	2,494	.7	1,687	.5	1,591	.7	1,072	.6
Arizona	3,365	1.3	5,731	1.8	6,554	1.9	3,637	1.0	2,909	1.2	1,757	.9
Utah	3,670	1.4	4,506	1.4	5,160	1.5	4,735	1.3	3,246	1.4	2,025	1.1
Nevada	1,274	.5	1,404	.4	1,376	.4	1,328	.4	1,126	.5	483	.3
Pacific	16,527	6.5	17,371	5.4	19,004	5.5	19,244	5.4	11,088	4.7	12,389	6.7
Washington	4,067	1.6	12,754	4.0	13,886	4.0	13,921	3.9	8,360	3.5	8,049	4.3
Oregon	1,656	.7	4,613	1.4	5,114	1.5	5,316	1.5	2,716	1.1	3,064	1.6
California	8 10,804	4.2	4	.0	5	.0	7	.0	12	.0	1,276	.7

1 Vermont: $406,000 from taxes on transportation and telephone companies and private car lines.
2 Pennsylvania: Taxes on money at interest and negotiable instruments.
3 Ohio: Intangible personal tax.
4 Michigan: $7,358,000 from taxes on public utilities.
5 South Dakota: $51,000 from taxes on money and credits and private car lines.
6 Virginia: Taxes on bonds and notes, money at interest, capital and rolling stock of steam railroads.
7 North Carolina: $1,446,000 from privilege tax on railroads.
8 California: $10,801,000 from taxes on motor vehicles.

Notes on selective property-tax revenues, 1937, included above (separate data for other years not available).
Source: Adapted from Bureau of the Census, Summary of Finances of State Government, 1937, No. 2, p. 5.

Nor is this condition confined to the States, for many counties and some of the larger cities are having great difficulty adjusting their revenue programs to restricted property-tax receipts. New York City, for example, finds itself saddled with a burden of debt, increased demands for public services, and a narrowing property-tax base, resulting from devaluations of property and the growth of a commuting population of higher-income people who use the services provided by the city but escape its property-tax levies. The result is that New York has been forced to enact a city retail-sales tax to obtain increased revenue and to raise its assessed property tax to $2.84 a hundred, the highest in its history.[96]

Other cities, such as Scranton and Pittsburgh, Pa., have devised schemes to secure higher tax returns from urban property by taxing vacant lots at double the rate of improved property. But whatever the device used, the trend seems indicative of a permanent condition which will require fundamental reform to effect a cure.

The duplication of taxation between States and Federal Governments is proving costly in administration and in the time and money of taxpayers. By 1935 there were more than 800 dual impositions on the same tax base by the Federal and State Governments. Taxation will never exert its full effect in aiding economic recovery until the tax structure is viewed as a single entity. Such a streamlining of tax organization is timely, because local and State governments are facing budget deficits and restricted tax resources. Because of well-developed tax resistance on the part of their citizens, they now turn expectantly to other governmental jursidictions for help. The localities seek to shift some of their burden to States, and States, in turn, ask the Federal Government for aid.

Increasing tax resistance, coupled with the greatly expanded and complex tax system needed to tap the various forms of wealth and income produced in an industrial society, necessitates the establishment of the most economical and efficient tax administration possible. This does not necessarily mean concentration of tax administration within the Federal Government; on the contrary, it may well mean a more reasonable division of tax sources and a clearer distinction between administrative responsibilities of Federal, State, and local governments.

The most suitable unit of government should collect the tax and allocate a proper share to all other governments concerned. This process has made substantial headway in certain States, particularly in gasoline and automobile property tax levies, which are best collected by the State licensing such property, and then allocated to the counties and cities to meet road costs, on some equitable basis of the volume of gasoline sales and ownership of automobiles there.

The State trade barriers erected to control the interstate movement of goods, through the tax device, emphasizes the need for closer cooperation between the various levels of government. Such tariffs augur little good for the prosperity of the Nation as a whole, and it becomes the duty of those responsible for economic policy and taxation to make clear the undesirability of taxation for these purposes.

Grants-in-aid have proved an effective device for distributing funds collected by governments with broad revenue powers to those gov-

[96] The National Association of Building Owners and Managers met in New York City in June 1940 and claimed that conditions in 70 overtaxed major American cities were similar to New York's. Time, July 1, 1940, pp. 66-67.

ernments with large unmet social needs. They form an excellent lever to use in obtaining uniformly high public performance, and can undoubtedly be used very effectively in obtaining desirable changes in tax systems.

Fundamental tax reorganization cannot be secured through the efforts of professional reform groups, or of pressure groups, helpful though these efforts may be in particular cases, for in the last analysis they are private agencies.

Taxation has become so essential to various Government departments that many of them conduct their own tax research to further particular programs. Thus the Department of Agriculture is greatly concerned about the effects on farmers of land taxation; the Federal Reserve Bank needs an extensive array of current information on taxation to keep abreast of its banking and investment problems, and the Social Security Board must formulate the policy underlying tax support for its security programs.

The Treasury Department holds a unique position, because it has immediate access to tax records invaluable in making tax studies. A tradition of secrecy has been developed concerning these tax records, intended to protect the anonymity of taxpayers. Carried to extreme, however, it has prevented the assembly, and publication of data concerning the impact of taxes, without which far-reaching reform cannot safely be made.

During 1939 the Treasury, acceding to the insistent demand of business organizations and citizens to be heard by a Federal agency responsible for formulating tax policy and recommending changes to the Congress, held informal private conferences with such groups. This procedure did not, however, offer an adequate method for the other major government departments to present their specialized knowledge and requests.

It seems unrealistic to expect that any single department of Government can speak for the administration on tax matters. The interests and purposes of the different departments are too distinct, and no department is willing to yield its position.

Yet the need for a clearing house for tax policy is daily becoming more pressing. The Bureau of the Budget, staffed by experts directly responsible to the President, seems a logical place to vest the authority for collecting and reviewing tax data and recommending the position of the Administration's tax program with respect to Federal, State, and local fiscal policy. This situation has already been recognized in the establishment of a fiscal division within the Bureau of the Budget. Just as it was ultimately, though belatedly, recognized that no existing department could collect the information needed to work out a proper Federal budget, and establish controls on estimates and expenditures, backed by Presidential authority to insure impartiality and adequate treatment, so now it is apparent that problems of fiscal policy and tax practice are interdepartmental, and best handled in the same way.

The Fiscal Division of the Budget Bureau, adequately staffed, would serve to correlate departmental activities so that the tax divisions of the several departments would not unnecessarily duplicate effort. It would review the research done in these departments, and

from time to time obtain the assistance of appropriate departments in the conduct of further research. It would prepare, as part of the technical work of the Bureau of the Budget, the revenue program best suited to meet proposed expenditures. Thus the President, and through him the Congress, would be offered a coordinated program of income and expenditure.

While such a fiscal division would untangle many interdepartmental snarls which should no longer be allowed to impede cooperation, it would also perform many other essential duties. The costliness and inefficiency of overlapping tax jurisdictions have long been under fire, but the efforts at reform are sporadic, and depend upon voluntary enthusiasms which "blow hot and blow cold." The problems, however, are continuing ones, whose character and emphasis change from year to year. It is essential that a suitable Federal agency be made responsible for collecting and maintaining current information on intergovernmental tax problems, conducting the research and conferences between these levels of government which are essential to adequate policy-making and legislation.

The Bureau of the Budget, and more particularly the Fiscal Division, can assume this function. Private and professional bodies would be encouraged to assist in the work to be done, but the Division would be in a position of responsibility, providing the channeling of effort and the continuity of activity essential to the ultimate solution of these problems.

The establishment of a Fiscal Division in the Bureau of the Budget, however, will not solve our tax problems. Now more than at any time in our history we need to work out the agenda of tax reform, to be established over a number of years. Basing its recommendations on the economic and social problems which confront us, and not forgetting the immediate changes needed, the Division should work out the objectives of an adequate fiscal policy, and a plan for achieving them as rapidly as possible.

A large part of the data needed could be assembled in a brief time. Some of the more crucial problems have not been studied, primarily because no one assigned to the task has had access to the necessary records in the Bureau of Internal Revenue and other Government departments. Such problems include a detailed survey of an adequate sample of both individual and corporate income returns, with a view to determining the exact composition of the various taxable income levels. The estate tax should be subjected to the same rigorous scrutiny, as should the gift-tax provisions. Such knotty problems as joint and separate individual income returns, individual and partnership returns, trusts, tax-exempt securities, and many others, would be clarified by these studies.

It should be a primary responsibility of the Fiscal Division to develop the necessary administrative and research machinery required to assemble data pertinent to a long-range tax reform program. All the interested Government agencies should share in this task, as well as those individuals and private organizations interested in tax problems.

SPECIFIC RECOMMENDATIONS

Besides the changes in planning and administrative techniques mentioned, there are a number of specific recommendations upon which there is substantial information and considerable agreement among

tax experts. Some of the particular recommendations are the creation of certain authorities; others have reached their present stage through discussion by qualified persons. Few, if any, are new with this study, although some of them have taken on new significance as a result of the new information gathered.

These recommendations are controversial, and have engendered much heat in the clash over their adoption. They are offered here, not with the expectation of their immediate or complete acceptance, but rather to assemble them beside our basic data on expenditures and revenues, where their worth can be measured. There is no adequate method of determining the priority of importance or of inauguration of these changes, hence they are grouped so far as possible into three divisions, satisfying the need for new large tax sources, and for reforms in progressive and regressive taxes.

New tax sources

The continued failure of the property tax base to recover its importance in the tax structure indicates more and more that the changes taking place in our economy have permanently altered the importance of property in relation to other forms of economic wealth. Any adequate tax system must take account of this shift from an agrarian to an industrial society, and develop a new or revised tax to tap industrial income and yield substantial, steady revenue for the support of government.

A new, inclusive tax intended to meet this situation is offered in the gross income or gross sales tax. This tax is discussed briefly here.

Confronted with a 33-percent drop in real-property tax yield in 1933, at a time when the State was forced to assume increased responsibilities for the support of public education, Indiana enacted a gross-income tax.[97] West Virginia, because of failure of property and other tax yields, had passed a gross-sales tax in 1921. These gross income and gross-sales taxes are often referred to as turn-over taxes because they extract a tax on the basis of every transaction which turns goods or services from one purchaser to another. In the process the incidence of a tax becomes obscured, but it is probably pyramided in successive prices until paid by the ultimate purchaser.

These taxes are properly described as "glorified sales taxes." A study of the yields shows the relative importance of each source in their total:

Source of gross income tax	Indiana	West Virginia
	Percent	*Percent*
Retail sales	63	71
Wholesale sales	17	8
All other sources	20	21
Total	100	100

While these taxes provide very substantial and comparatively stable revenues, they are detrimental to any economy suffering from underconsumption and lack of mass purchasing power. Not only do they pyramid, but their dependence upon purchases of consumers' necessities renders them both uneconomic and antisocial. While such taxes

[97] H. D. Anderson, Our California State Taxes, ch. VI, Gross Receipts and Gross Income Taxes, pp 149-169.

might be used to limit consumers' buying during a period of full employment, they cannot be defended at any other point in the business cycle, and should be avoided if the tax system is to be used to promote recovery.

One of the national pension organizations sought certain modifications in the gross income tax, proposing a general transactions tax on an "added value" basis. It differs from the tax just described in that the cost of materials is deducted from gross income, leaving a taxable income based on the value added to the materials. In this way it is hoped to avoid the regressive pyramiding effect of the gross-income or gross-sales tax. An estimate of the base for such a tax appears in table 72.

TABLE 72.—*Estimate of tax base for "added value" taxation*

[Estimate based on U. S. Government statistics for 1935]

Groups	Gross income	Cost of materials	Taxable balance
Manufacturing	$44, 993, 698, 573	$25, 978, 100, 553	$19, 015, 598, 020
Retail sales	33, 161, 276, 000	21, 554, 829, 400	11, 606, 446, 600
Wholesale sales	72, 119, 078, 000	61, 301, 216, 300	10, 817, 861, 700
Real estate, including rentals	52, 000, 000, 000	41, 600, 000, 000	10, 400, 000, 000
Construction	1, 622, 862, 000	681, 602, 040	941, 259, 960
Service establishments	25, 000, 000, 000	250, 000, 000	24, 750, 000, 000
Agriculture	9, 000, 000, 000	900, 000, 000	8, 100, 000, 000
Mining	2, 800, 000, 000	1, 200, 000, 000	1, 680, 000, 000
Electric light, power, and gas	3, 000, 000, 000	600, 000, 000	2, 400, 000, 000
Transportation	6, 000, 000, 000		6, 000, 000, 000
Communication	4, 000, 000, 000		4, 000, 000, 000
Finance	125, 000, 000, 000	100, 000, 000, 000	25, 000, 000, 000
Wages, salaries, and interest	62, 000, 000, 000		62, 000, 000, 000
Miscellaneous	25, 000, 000, 000	2, 500, 000, 000	22, 500, 000, 000
Gifts	4, 000, 000, 000		4, 000, 000, 000
Inheritances	9, 000, 000, 000		9, 000, 000, 000
Total	478, 696, 914, 573	256, 485, 748, 293	222, 211, 166, 280

Source: Social Security For All, and How to Get It, General Welfare Federation of America, Washington, 1939, p. 17.

The table indicates that the defects of a gross income or sales tax have been only partly remedied. The tax remains decidedly regressive, unless some substantial offsets or exemptions are made for small income groups. Covering every form of business transaction, it offers possibilities for a vast single system of taxation, but raises grave doubts of the justice of a flat levy on all forms of business transactions. It has no relationship to net gain or worth, and may be a serious drag on an economy so maladjusted that many of its people are living on a bare subsistence level. The revenue possibilities of the tax are enormous. Either as a partial substitute for property taxes, which are likewise regressive in character, or as a source of additional funds, the tax has much to commend it. But before any such inclusive added value tax is seriously considered, much more information should be assembled than is now available on its incidence and effect, and other economically sounder possibilities should be explored.

It is possible that an added value tax on manufactured goods, applied either as a necessary supplement to existing revenues or as a partial replacement of excises or property taxes, would be a helpful addition to the revenue structure. A combination of added value taxes on manufactured goods and property income taxes might prove a great boon to the economy.

Paul Studenski, tax expert at New York University, advocated such a tax in his testimony in the congressional hearings on changes in the social-security laws. He said in part:

In my opinion, you really should seriously consider adding to our Federal revenue system a gross receipts tax of the sort described [the "value added by manufacture" tax on manufactured goods] because such a gross-receipts tax would be in the nature of a payment by industry for the benefit received from the operations of the Government. Such a tax, levied at a moderate rate, would produce stable revenue, and it would not be pyramided. * * * To give stability to our Federal system, I think we should add thereto such a gross-receipts levy, but I am not certain that we have as yet the statistical basis necessary for the introduction and operation of such a gross-receipts tax.[98]

The search for new taxes will probably be of continuing importance as our budgets increase and our taxing jurisdictions meet new tax impasses; probably by far the greatest hope for desirable change, however, is to be found in improving and rearranging the taxes with which we are already familiar. With greater emphasis on solving the problems of recovery, we can achieve full employment of our resources, and attain a level of national income sufficient to yield needed tax revenues without experimenting with untried tax sources on the one hand, or unduly increasing the tax burden on the other.

A recent Government research memorandum regards full employment as possible when the national income is raised approximately $30,000,000,000 above present levels. Nothing so far proposed in the national-defense program, or in the private sector of the economy, can possibly yield this increased income. Hence, we may expect for some time to come, barring a greatly expanded defense program, continued mass unemployment and the need to achieve recovery by the fuller use of our manpower and resources, rather than depending on a scarcity economy. If we could achieve full employment now, we could, by revising our tax system, secure revenues large enough to defray the costs of a comparatively high grade of government. It is in this direction that our efforts should be directed.

Specific changes in tax laws

The Twentieth Century Fund considered this problem in its study, making both staff and committee recommendations, many of which still remain unmet and therefore valid.[99] Randolph E. Paul, eminent tax attorney and author of a well-documented series of studies on Federal taxation, has made keen analyses of the legal loopholes, ambiguities, and inequities in certain parts of the present tax system.[1] The National Tax Association has had continuing committees at work on various phases of taxation for a number of years, publishing important studies currently.[2] Congressional committees have devoted prolonged study to these problems, and made many substantial improvements. Numerous other societies, organizations, and individuals have devoted serious attention to the problems of specific changes required in our tax laws. Many of their findings and suggestions have been drawn upon in the following recommendations.

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[98] Hearings Relative to the Social Security Act Amendments of 1939, before the House Ways and Means Committee, 76th Cong., 1st sess., Washington, 1939, vol. 2, pp. 962 ff.

[99] The Twentieth Century Fund, Facing the Tax Problem, New York, 1937.

[1] Randolph E. Paul et al., Studies in Federal Taxation, Callaghan & Co., Chicago, 1937; also, Selected Studies in Federal Taxation, same publisher, 1938; also, The Law of Federal Income Taxation, same publisher, 6 vols., 1934.

[2] National Tax Association, Final Report of the Committee of the National Tax Association on Federal Taxation of Corporations, Robert M. Haig, chairman, 1939. This is one of the most recent examples of the association's work.

Changes in personal income taxes.—The revisions in exemptions and certain other changes made in the emergency legislation passed by Congress in June 1940 have improved the personal income tax considerably, widened its base, and provided for much greater participation of many more citizens in the direct tax program of the Government. These changes should remain as permanent features of the tax. In addition, it is suggested that the merits of the following proposals be thoroughly canvassed:

1. *Revision of rate structure.*—The 1940 revisions simply increased surtax rates a flat 10 percent, and added a defense tax of 10 percent on the total tax, thereby accentuating rather than correcting existing inequities. The most reasonable rate changes should be determined, based on the ratio of tax to the net income available for taxation, for the entire range of reported incomes. The present tax especially favors net incomes ranging from $5,000 to $50,000, favors those from $50,000 to $100,000, and does not extract excessive taxes from even those above that amount. It leaves almost untouched incomes from $2,000 to $5,000. Because of the number of persons in these brackets, and their relatively comfortable circumstances, there is a possibility of greatly increasing the income tax yield by higher levies upon them. Thus, while we can reasonably secure more revenue by applying higher rates to the entire body of net income receivers, the unequal levies within the rate structure should be adjusted. Furthermore, since States also levy on the same net incomes, adjustments should be made between the two Governments. In this connection, it would seem reasonable to work out a single income tax levy, with provisions for refunds to States.

The fear that higher surtaxes will defeat there own purposes through a lowered proportionate yield is unwarranted, especially in a preparedness boom economy.[3] According to available evidence, England has had an adequate amount of investment capital despite successive increases in income-tax rates. A comparison of rates in force in the United States and Great Britain (1940 revision in the United States, and 1940 applied rates in England) is as follows.

Net taxable income	Tax paid (married person, no dependents)	
	United States	England
$4,000	$70	$872
$8,000	317	2,248
$20,000	2,336	8,220
$80,000	30,738	52,072
$400,000	255,392	323,072

Obviously, it is not suggested that British precedent be followed precisely, for the tax systems and economic conditions of the two countries are dissimilar. But the table illustrates the severity of taxation in one of the outstanding conservative cap-

[3] In this connection, see the excellent discussion of higher surtax effects by James D. Magee and Harold M. Groves, Federal Income and Taxation, Law and Contemporary Problems. Journal of the Duke University School of Law, spring quarter, 1940, pp. 183–188.

[4] Compiled by Martin Krost, Bureau of Research and Statistics, Federal Reserve Board, Washington, 1940.

italistic nations of the world, as compared with that now in force in the United States.

Further, fundamental changes in income-tax rates, calculated to yield more revenue, should be adopted after an analysis of the effect of the total revenue system, with the intention of substituting income-tax yields for consumers' taxes, which have a depressive effect on the economy.

2. *Personal exemption.*—The present method of granting exemptions of $800 and $2,000 and credits for dependents, before applying successive surtax rates, results in an unequal allowance to different taxpayers. A higher tax yield can be obtained from progressively higher taxable incomes by permitting exemptions and credits as deductions from the tax assessed, or as a credit against the normal income only.

3. *Compulsory joint returns.*—The present provision permitting either joint or individual returns results in tax avoidance through transfers of property and the filing of separate returns at lower tax rates. The law should set up a "financial family" allowing a single tax return for husbands and wives to avoid the opportunity for such favoritism.

4. *Short-term trusts.*—The law should be corrected to eliminate avoidance through the creation of a short-term trust whereby a person transfers property to another. Paul suggests that a simple method of closing this loophole is to tax the grantor on the income from property so transferred.

5. *Capital gains.*—The present law permits the taxpayer to be taxed on his long-term capital gains at certain fixed rates, rather than adding such gains to his regular income-tax report. It is recommended that long-term capital gains be treated like other gains.

6. *Tax-exempt securities.*—This subject has been treated previously. A sound income tax requires that the issuance of tax-exempt securities be prohibited.

7. *Surplus accumulations of corporations.*—Corporation directors often choose to accumulate surplus rather than increase dividends. This may result in unfairness to individual stockholders, and it reduces the yield of the income tax. Several suggestions may be offered to correct this situation, at least in part. Corporations might be required to disburse a certain percentage of income in dividends, or issue certificates of participation in undistributed profits to stockholders, who would be required to report them as income subject to taxation.

There are a number of other loopholes to be closed in the personal-income tax, many of which have been discussed previously, but these constitute major changes which will improve the tax itself and yield substantially more revenue.

Changes in the corporate income tax.—The National Tax Association's Committee appointed to study corporate taxation summarized its extensive investigation with the conclusions that:

Except for the special provisions governing personal holding companies and corporations improperly accumulating surpluses, the 1939 statute represents a complete abandonment of the effort to use the corporation tax to make the personal-income tax effective. * * * The enactment of the undistributed-profits tax was of real significance in that it marked a recognition of the inequity involved in the failure to bring corporate savings fully and promptly to account

for personal income-tax purposes. * * * A majority of the members [of the committee] desire to record their sympathy with this objective of the law, and to regret the absence of any provision in the revenue act as it now stands for applying the personal-income tax fully and promptly to all corporate savings. By its action in 1939, allowing the undistributed-profits tax to lapse, Congress merely retreated from this problem without solving it. Today it remains before us as perhaps the most important in the whole field of Federal corporate taxation.[5]

The committee of tax experts of the National Tax Association reached their conclusions regarding corporate taxation from the premise that the major purpose of special taxes on corporations is to make the personal net-income tax effective. For this purpose, undistributed-profits taxes must be levied on these business enterprises. In addition, it appeared reasonable to the committee that corporations be taxed:

1. For the special benefits arising from the distinctive privileges that are granted by the Government to this particular form of business organization.
2. For the benefits, in common with all forms of business organization, arising from the maintenance by the Government of a favorable framework and environment in which to operate.[6]

To accomplish the first purpose it was recommended that a capitalization or franchise tax be levied instead of an income tax. With incorporation under Federal statutes rather than in the present unsound manner under State laws, corporations could be regulated and taxed equitably.

To achieve the second purpose, some form of profits taxation may be continued, but including all business profits whether made by individual proprietors, partnerships, or corporations. Or, the desired result may be achieved by reforming the business tax into an added value levy on the additions made to materials through the manufacturing process.

If, in view of the present entrenched corporate tax structure, no such basic reform is feasible at this time; still, certain changes can be made to improve present statutes. The following changes are suggested.

1. *Insurance taxation.*—Life insurance has become a gigantic business which enjoys preferential treatment through tax exemption. For example, with almost $1,000,000,000 of gross income in 1937, life-insurance companies paid only $392,000 in Federal income taxes. So-called mutual fire insurance companies are not even required to file income returns. The law should be changed to tax such companies on the same basis as other businesses.

2. *Building and loan associations.*—Court decisions have removed these businesses from income taxation. But such decisions were rendered in a day when little attention was paid to the equity of the tax structure. To the extent that these enterprises are profit-making businesses, and not bona fide cooperative organizations, they should be subject to the same treatment accorded other profitable businesses.

3. *Excess-profits tax.*—A tax on unusual profits has been recommended for enactment in order to insure against the

[5] Final report of the Committee of the National Tax Association on Federal Taxation of Corporations; op. cit., pp. 48-49.
[6] Ibid., p. 50.

accrual of unusual gains from wartime industries. An excess profits tax was passed in October 1940. It is a complicated measure, not satisfactory to any group and will probably be revised in the near future. H. R. 9513, Seventy-sixth Congress embodies the essentials of a suitable excess-profits tax. A base period net income is determined, in this instance the average of the corporation's annual net income for three of its taxable years ending during the calendar years 1935, 1936, 1937, and 1938, the choice to be made by the corporation. If the corporation has not had that long a life, the average income since its establishment is taken as the base period net income, except that in no case shall this be less than 5 percent nor more than 15 percent of the adjusted capital investment of the corporation. Excess-profits rates are applied to that part of the income above the base period income. The rates suggested in H. R. 9513 apply to all corporations with net taxable incomes of $10,000 or more. Tax rates range from 10 percent of the net income which exceeds the base period net income by 10 percent, to 75 percent of that portion which exceeds the base period net income by more than 50 percent.

The passage of an appropriate excess-profits tax cannot come too soon for the good of the economy. Already certain American industries are piling up amazing wartime profits. The annual return on net worth, on the basis of earnings during the first quarter of 1940, for six representative machine tool corporations ranged from 24.8 to 66.8 percent; for five aircraft corporations from 28 to 52.4 percent; and for one automobile company, it was 44.7 percent.

But, at best, as World War I proved, an excess-profits tax is a crude instrument, for controlling profits and preventing inflation. Alternative defenses, such as the power to commandeer property and develop Government production, should also be utilized.

Gift and estate tax changes.—It is essential to coordinate the gift and estate taxes with the personal income tax in order to obtain a complete and equitable tax levy on individuals possessing wealth and income. Besides the suggestions appearing elsewhere in the monograph, certain specific recommendations can be made here.

1. *Contemplation of death.*—The difficulty of interpreting and enforcing the gift tax statute can be partially eliminated by establishing an age limit, say 60 years, beyond which all gifts made are considered in contemplation of death.

2. *Gift tax exemptions.*—The exemptions permitted under the gift tax are very generous. To provide a more reasonable basis of taxation, it is suggested that tax exemptions of gifts to individuals be permitted only when gifts are made to immediate family members.

3. *Inclusion of gifts.*—Gifts made during the life of the donor should be included in the taxable estate, assessing the tax against the total estate, and permitting deductions for gift taxes paid previously. Martin Krost gives a case illustrating the meaning of a coordination of income, estates, and gift taxes. He points out that a gift of $10,000 from an estate which at the death of the donor will amount to somewhat more than $1,000,000 avoids a

prospective estates tax of $3,200, while paying a gift tax of only $150.

4. *Revision of estates-tax rates.*—The exemptions of $40,000 each for gifts, estates, and insurance permit a tax-free estate of $120,000 to pass to legatees. This defeats the true purpose of the estates tax. An over-all limitation on exemptions should be made, low enough to permit taxation on practically the whole estate. An inclusive tax statute could then be devised, with graduated rates.

5. *Power of appointment governing estates tax.*—The practice of establishing trusts with power of appointment to issue of the legatee means that no estates tax is assessed, even though the estate held in trust passes from the original legatee to a new heir. This practice should be stopped by prohibiting such appointments to issue.

6. *Continued holdings.*—The Twentieth Century Fund study suggested levying a particularly high tax on property which passed through two or more generations. The recommendation has merit, but requires carefully assembled data from an examination of original records before proceeding further.

Pay-roll taxation.—The 1939 revisions of the social-security laws have liberalized old-age payments, and have frozen pay-roll taxes at a rate lower than that to have been imposed in 1940. Nevertheless, neither objective of the social security program has been achieved, for we have neither an adequate old-age pension nor an economically sound basis of support. It is recommended that the pension be made universal and that it be supported through a general fund set up and maintained in the Treasury Department for this purpose.

It is further recommended that the unemployment compensation program of the Social Security Act be carefully scrutinized with a view to revising the pay-roll rate structure, increasing the coverage, and prolonging the benefit period. The effects of the defense economy on the whole tax base and program of unemployment compensation should be examined by a committee appointed by Congress for this purpose.

Tax incentives

Much has been written about the need to provide incentives to business through tax exemptions or allowances. Most of the suggestions are motivated by the desire of certain groups to escape taxation. But there are some which emanate from disinterested and scientific sources intent upon using taxation to induce economic recovery. S. 3560, Seventy-sixth Congress, offered by Senator Joseph C. O'Mahoney, is an excellent example of a tax incentive proposal of this kind, intended to provide a labor differential which will increase employment.

Incentive taxation has long held unusual attraction, and comes to the fore in every prolonged economic crisis. The proposal takes one of several forms, usually tax subsidies based upon increased employment. In the most notable example of the use of a pay-roll incentive, the German "Papen plan," the tax subsidy approached 50 percent of additional pay rolls, without any appreciable improvement of the generally depressed economy. Yet, the chaotic circumstances prevailing at the time of its imposition may account for its ineffectiveness, rather than its own inherent weaknesses.

Congress devoted serious attention to the problem in 1939, rendering a report which collected much opinion on the subject from all parts of the country. The study concluded:

> It is urgently recommended that Congress experiment for the next 5 years at least by trading tax credits against dollars actually invested by industry in modernizing, expanding, or developing production, and for additional employment.[7]

Another form of incentive taxation is that which penalizes the withholding of economic resources from productive use. Some have suggested the taxation of idle bank deposits. One plan offered by a correspondent is as follows:

> 1. Tax the average monthly balances held by banks as demand deposits for the account of individuals, after deducting an exemption of $5,000, at, say, one-fourth percent a month. The tax to be collected monthly by the banks and transmitted to the Treasury. The banks to be paid for this service.
>
> Make provisions against evasion. This is not difficult. Effective provisions have already been worked out.
>
> 2. Assess a graduated tax on cash held by corporations at the end of each year which is in excess of the reasonable requirements for working cash capital, commitments, and reserves, according to the size and nature of the business.
>
> 3. As there is a large volume of capital funds held idle at the present time, and as extensive new investment in plant expansion would be unprofitable so long as there is an excess of plant capacity, and as individuals with surplus funds are either unwilling or unable to spend them on consumers' goods, it will be necessary for the Government to assume a part of the function of investment at least until a condition of balanced prosperity is restored.
>
> Therefore, let the Government offer to borrow at a low rate of interest the existing idle funds owned by individuals and spend the money on public works. This could be done within 2 or 3 years, and then the Budget could be permanently balanced.[8]

Colm has suggested a tax on unused funds considerably less elaborate than the foregoing. He proposes to determine "disposable funds" as the excess of "accrued funds" (which are income plus depreciation and depletion) over "used funds" (which are funds used for taxes, distributed dividends, and plant and equipment expenditures). A tax is to be imposed on these disposable funds, say at 20 percent. This amount is paid into the Treasury along with the regular income-tax payment. Whenever in any taxable year the used funds are higher than the accrued funds, the taxpayer acquires a claim against the Bureau of Internal Revenue for that amount. The claim is not paid in cash, but applies on future tax liabilities.

All such proposals represent attempts to use the tax procedure to achieve economic recovery. They are not to be dismissed lightly in a day when every social and economic force must be applied to the problems besetting our economy. But they are substantial departures from proven tax methods, and inject untried elements into our political economy which require careful consideration before being applied.

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[7] Report of the subcommittee of the Senate Committee on Finance, Survey of Experiences in Profit-Sharing and Possibilities of Incentive Taxation, Washington, 1939, p. 286.

[8] Suggestions made in a memorandum by George Richmond Walker, Boston, Mass., April 15, 1940.

It is seriously recommended, despite the increasing emphasis on a preparedness economy which may well shove such far-reaching proposals into the background, that they be included for study in any agenda of tax reform. Scientific information on these new proposals is almost entirely lacking, but the need for new tax sources, and the imperative demand for an economically sound tax revision necessitate the inclusion of every reasonable suggestion in the list of reforms to be studied.

GENERAL CONCLUSIONS

This monograph has attempted to assemble and analyze pertinent data concerning the expenditure program and tax system of the Nation, to determine the bearing of both on economic conditions and the full employment of manpower, capital, and resources. Much new statistical material has been assembled which is fundamental to an adequate tax program, and many competent sources have been examined and reported.

This monograph supplements certain other studies of the Temporary National Economic Committee, notably the following:

- Concentration and Composition of Individual Incomes, by Adolph J. Goldenthal.
- Financial Characteristics of American Manufacturing Corporations, by Charles L. Merwin, Jr.
- Taxation of Corporate Enterprise, by Clifford J. Hynning.
- Who Pays Taxes? the Allocation of Federal, State, and Local Taxes to Consumers' Income Brackets, by Gerhard Colm and Helen Tarasov.
- Industrial Reemployment Plans, by Arthur J. Dahlberg.

If emphasis on the preparedness program continues to increase, then much of the material presented here will have great significance, for it offers an appraisal of the economic problems besetting the Nation, in relation to the tax system. Further, various proposals thus far made for meeting the needs of a war defense economy are covered.

If, on the other hand, the major emphasis should return to domestic economic problems, this monograph should be of help in pointing out the hazards and pitfalls of unsound tax proposals and experiments, and in suggesting desirable changes in a peacetime tax structure.

Whether in a defense or a peace economy, it becomes increasingly clear that the local, State, and Federal tax systems require substantial revision. As debt mounts and expenditures increase, further delay in facing our tax problems becomes more hazardous to economic stability.

The specific suggestions made in this monograph will not be repeated here, but it is important to recall that they fall into two general classes, those fundamental reforms which require drastic changes in the interrelated tax systems of the different governmental levels, and those specific detailed changes in the tax statutes which can usually be made without regard to fundamental reforms in the entire tax structure. Both require appropriate machinery. The former can best be met by designating a fiscal unit of the Federal Budget Bureau to collect data and cooperate with other departments and organizations in a long-range, careful attack on tax problems. The latter can proceed at once, following appropriate collections of information and designing of tax statute changes. Obviously, of course, their efforts should be correlated.

The basic reforms in the Federal tax system revolve around an effective income-tax structure, supplemented by certain levies on business privileges, such as a tax on "value added by manufacture." Through a thorough-going revision of income, estates, profits, and gift taxes, with proper credits to States participating in the combined program, a sound tax system can be developed to aid in stabilizing either a preparedness or a peacetime economy.

Basic reforms in the State and local government tax structures are necessary, and can be achieved through the adoption of 'added value" taxes on State corporations and businesses, and property income taxes, plus certain registration and control taxes required to regulate business activities.

A suitable division of sources becomes essential to any such reform of the tax structure, and a mechanism must be developed for the most economical and efficient administration of these interrelated aspects of a Federal, State, and local tax system.

Much of the confusion resulting from the all-too-frequent tax changes made by State and Federal Governments can be avoided only by taking drastic steps to bring our archaic tax system into alinement with the level of economic development we have attained. To avoid further gaps between the two, we must develop a machinery of tax administration which, while in no sense capricious, can determine when and how to apply certain phases of the tax program in order to produce a desired economic effect. This must not be taken to mean that the elected representatives of the people are to abdicate their powers to pass tax laws; much more administrative discretion is required, however, to operate a tax system which takes cognizance of the business cycle, and dovetails various elements in the tax program to the recognized phases of that cycle in order to obtain the maximum economic benefit from the tax program.

Finally, it is now clear that tax reform is a continuing process to be shared by all levels of government. Under proper auspices, these various levels of government can be adequately represented. The character of the tax system denotes the social enlightenment of the people subject to it. An economically sound plan of taxation will be built on the fundamental principle that citizens should bear the direct costs of government in proportion to their economic ability to do so. No better principle has been discovered worthy of a democracy which seeks to achieve a high standard of living and maintain economic prosperity.

APPENDIX A

THE ECONOMIC STRUCTURE OF THE UNITED STATES

PRODUCTION AND DISTRIBUTION IN THE UNITED STATES

Productive capacity depends on the natural resources of the country; the population and manpower available to transform these natural resources into goods and services; wealth in the forms of improvements to land, productive assets of livestock, machinery, and vehicles; public utilities for power generation and transmission, light, heat, and transportation; and stocks of goods.

The Brookings Institution's careful and conservative studies on the distribution of wealth and income in relation to economic progress revealed that in 1929 only about 80 percent of the available productive capacity in the United States was actually employed. Yet even this 80 percent was so unevenly distributed that production ranged from 45 percent of practical capacity in the locomotive industry to 92 percent in the full-fashioned hosiery industry. The over-all proportion of unused capacity remained fairly constant for the first years of the present century, although the total volume of production grew enormously. After 1929, however, production fell off more than a third from its high point.[1] Idle men, idle machines, and idle capital characterized the economy of the next 10 years.

NATIONAL WEALTH

In table 1, chart 1, the total wealth of the United States is displayed for the years since 1922. Data are arranged in current dollars, and in hypothetical 1926 dollars based on the general price level index. Index columns are added, with a base of 1922 as 100, to permit comparisons for successive years.

Certain conclusions important for their bearing on taxation can be drawn from the figures. National wealth fluctuates, whether judged in current or adjusted dollars. In terms of current dollars, the national wealth for every year since 1922 has exceeded $300,000,000,000, except for the period 1932–35. In terms of price-level dollars, it has not fallen below $309,000,000,000 since 1922. In current dollars, the peak was reached in 1929, when the total was $354,000,000,000. As a result of the depression, the total wealth in terms of 1926 dollars dropped from $367,000,000,000 in 1931 to $341,000,000,000 in 1936.

[1] The Brookings Institution, America's Capacity to Produce, Washington, 1934.

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TABLE 1.—*Total and per capita wealth of the United States, 1922–37*

Year	Current dollars				Hypothetical 1926 dollars based on the index of the general price level	
	Total		Per capita		Total	
	Thousands of dollars	Percent of 1922	Dollars	Percent of 1922	Thousands of dollars	Percent of 1922
1922 [1]	306, 764, 080	100.0	2, 792	100.0	332, 715, 920	100.0
1923	309, 117, 658	100.8	2, 771	99.2	320, 329, 180	96.3
1924	306, 226, 330	99.8	2, 705	96.9	315, 372, 120	94.8
1925	307, 254, 801	100.2	2, 675	95.8	309, 109, 450	92.9
1926	310, 060, 969	101.1	2, 661	95.3	310, 060, 968	93.2
1927	326, 707, 495	106.5	2, 764	99.0	326, 707, 495	98.2
1928	340, 612, 841	111.0	2, 842	101.8	331, 013, 440	99.5
1929	353, 620, 986	115.3	2, 910	104.2	337, 746, 880	101.5
1930	344, 154, 405	112.2	2, 796	100.1	350, 462, 730	105.8
1931	321, 969, 909	105.2	2, 594	92.9	367, 126, 460	110.3
1932	298, 960, 109	97.5	2, 392	85.7	387, 254, 020	116.4
1933	288, 867, 130	94.2	2, 297	82.3	384, 131, 820	115.5
1934	286, 569, 312	93.4	2, 263	81.1	357, 764, 430	107.5
1935	290, 975, 369	94.9	2, 282	81.7	343, 131, 330	103.1
1936	307, 639, 205	100.3	2, 395	85.8	341, 441, 960	102.6
1937 [2]	321, 791, 722	104.9	2, 490	89.2	341, 581, 812	102.7

[1] The census estimate for 1922 was: Total wealth $320,803,862,000; per capita wealth $2,918.
[2] Preliminary.

Source: National Industrial Conference Board, Enterprise and Social Progress, New York, 1939, p. 58.

The table also gives information concerning per capita wealth based on current dollars. A comparison of wealth and population figures really means very little, for there is no such actual distribution of wealth, and hence taxable resources, as per capita figures would indicate. Yet the figures have some comparative value, indicating roughly the relationships between total population and wealth for various time periods. For example, in 1922 there was $2.792 of wealth in the United States for every inhabitant living within its borders. The figure declined somewhat thereafter until 1928, when it went above 1922. The peak was reached in 1929, when it was 4.2 percent above 1922, and 15 percent above 1937. Since the population had risen steadily during that period, the amount of wealth which could have been distributed equally among the inhabitants of the United States in 1937 was considerably less than in 1929. The low per capita figure was reached in 1934; yet the recovery experienced since then, while substantial, has provided a per capita wealth considerably less than that of any year prior to 1932.

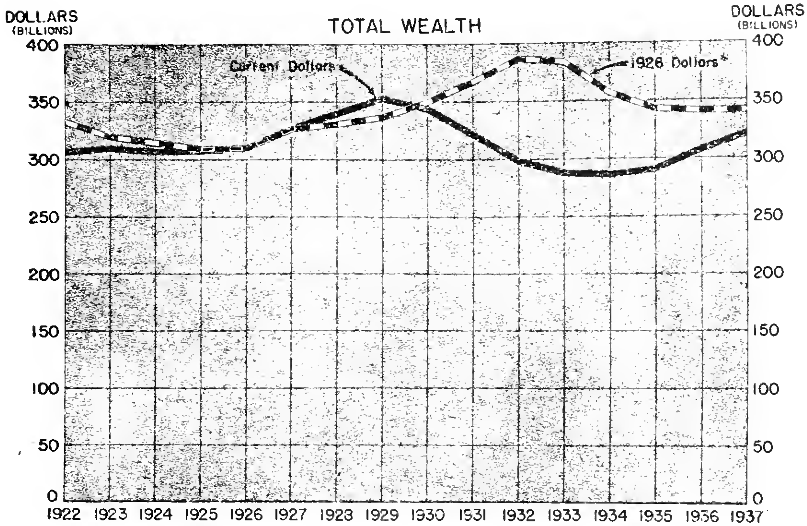
A comparison of the indexes of current and adjusted dollars shows that wealth in terms of purchasing-power dollars did not drop from 1929 to 1933 as far as wealth in current dollars. If adjusted dollars are an indication of true assets, it appears that total wealth did not decline until 1933. In that year, however, the Nation's wealth fell sharply, reached its depression low in 1936, and remained at approximately that level in 1937.

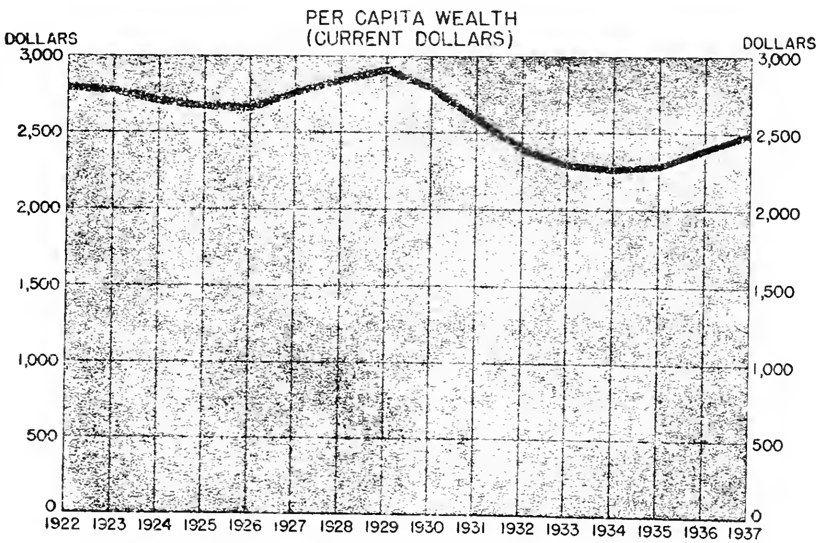
Whereas in current dollars national wealth in 1936 equaled that of 1922, in adjusted dollars it was slightly greater than in 1922. The important conclusion is that the Nation's assets, measured by a dollar adjusted to changes in purchasing power, were greater in 1937, despite the depression, than they were in 1929.

CHART 1

TOTAL AND PER CAPITA WEALTH

UNITED STATES, 1922-1937





SOURCE: ENTERPRISE AND SOCIAL PROGRESS, National Industrial Conference Board, New York, 1939, p 58

* Rises and Declines Represent Changes in Physical Volume of 1926 Price Levels

Judged either by current or adjusted dollars, the national wealth in 1937 was above that available during the early part of the prosperous twenties.

In table 2 the wealth of the United States is compared for 1929 and 1936, the last year for which detailed figures are available. Wealth is not taxed as such, but various taxes have been devised to levy upon the forms of wealth or the income which they produce. Thus, these data serve as basic material in approaching the solutions of the tax problem. Unfortunately, only figures on current-value dollars are available.

TABLE 2.—*Classification of wealth in the United States, 1929 and 1936*

[Dollar figures in millions]

Form of wealth	1929		1936		1936 over 1929	
	Amount	Percent	Amount	Percent	Amount	Percent
Total [1]	$353, 621	100.0	$307, 639	100.0	−$45, 982	−13.0
Land	184, 971	52.3	167, 451	54.4	−17, 520	−9.5
Real property and improvements (taxed)	160, 453	45.4	141, 679	46.1	−18, 774	−11.7
Real property and improvements (exempt)	24, 518	6.9	25, 771	8.4	1, 253	5.1
Productive assets (of individuals and corporations except utilities other than land)	31, 458	8.9	23, 223	7.5	−8, 235	−26.2
Livestock	6, 490	1.8	5, 108	1.7	−1, 382	−21.3
Farm implements and machinery	1, 970	.6	1, 436	.5	−534	−27.1
Manufacturing machinery, tools, and implements	15, 355	4.3	11, 252	3.7	−4, 103	−26.7
Motor vehicles	7, 643	2.2	5, 428	1.8	−2, 215	−29.0
Public utilities	46, 173	13.1	46, 644	15.2	471	1.0
Railroads and their equipment	24, 076	6.8	23, 529	7.6	−547	−2.3
Street railways	3, 085	.9	2, 612	.8	−473	−15.3
Telegraph systems	343	.1	389	.1	46	13.4
Telephone systems	3, 413	1.0	3, 596	1.2	183	5.4
Pullman and other cars not owned by railroads	483	.1	363	.1	−120	−24.8
Pipe lines	441	.1	372	.1	−69	−15.6
Shipping and canals	2, 223	.7	2, 275	.7	52	2.3
Privately owned water works	885	.3	699	.2	−186	−21.0
Privately owned central electric light and power stations	11, 224	3.2	12, 808	4.2	1, 584	14.1
Stocks of goods	91, 019	25.7	70, 321	22.9	−20, 698	−22.7
In hands of producers	16, 989	4.8	13, 281	4.3	−3, 708	−21.8
Farmers	(2, 451)	(.7)	(1, 762)	(.6)	(−689)	(−28.1)
Manufacturers	(13, 815)	(3.9)	(11, 220)	(3.6)	(−2, 595)	(−18.8)
Miners	(723)	(.2)	(299)	(.1)	(−424)	(−58.6)
In hands of dealers	12, 510	3.5	9, 728	3.2	−2, 782	−22.2
Wholesalers	(5, 247)	(1.5)	(5, 103)	(1.7)	(−144)	(−2.7)
Retailers	(7, 263)	(2.1)	(4, 625)	(1.5)	(−2, 638)	(−36.3)
In hands of consumers	56, 857	16.1	36, 153	11.8	−20, 704	−36.4
Gold and silver coin and bullion	4, 664	1.3	11, 158	3.6	6, 494	139.2

1 Discrepancies between totals and sums of items are due to rounding of the latter.

Source: Adapted from National Industrial Conference Board, Enterprise and Social Progress, 1939, p. 60

The various forms of national wealth are as follows:

Form of wealth:	1929	1936
Land and improvements	52.3	54.4
Productive assets	8.9	7.5
Public utilities	13.1	15.2
Stocks of goods	25.7	22.9
	100.0	100.0

Land and the improvements which have been made on it account for more than half of the wealth of the Nation. Despite the substantial money loss sustained in these sources of wealth from 1929 to

1936, as judged in current dollars, they have now become even more important among the various forms of wealth.

Productive assets of individuals and corporations other than land, such assets as livestock, farm implements and machinery, manufacturing machinery and tools, and motor vehicles, were 8.9 percent of all wealth in 1929, but they have declined 26.2 percent since then, to account for 7.5 percent of all wealth in 1936.

Public utilities include the properties and equipment of railroads, street railways, telegraph and telephone systems, pipe lines, shipping and canals, privately owned waterworks, and electric and gas plants. In 1929 these public utilities were 13.1 percent of the national wealth. By 1936 they had increased to 15.2 percent. But, in contrast to land wealth, which sustained a loss, public utilities, measured by current dollars, actually increased 1 percent from 1929 to 1936. The wealth of telephone and telegraph systems, shipping and canals, and privately owned central electric light and power systems increased, while all others suffered loss. In 1936 the different utilities ranked as follows in their percentage of all utility wealth:

Utility:	1936
Railroads	50. 4
Electric power	27. 5
Telephone	7. 7
Street railways	5. 6
Shipping canals	4. 9
Waterworks	1. 5
Telegraph	0. 8
Pullman	0. 8
Pipe lines	0. 8
	100. 0

Stocks of goods declined from 25.8 percent of national wealth in 1929 to 22.9 percent in 1936, and in terms of current dollars the loss sustained was 22.7 percent. Goods in the hands of consumers declined most in relative position, as shown by the following figures taken from table 2:

Stocks of goods:	1929	1936
In hands of producers	4. 8	4. 3
In hands of dealers	3. 5	3. 2
In hands of consumers	16. 1	11. 8

Goods in the hands of consumers were 66 percent of all stocks of goods in 1929, and 61 percent in 1936, a decline of 36.4 percent in that period. However, by 1936 stocks of goods in the hands of producers and of dealers each declined 22 percent from the peak of 1929.

Gold and silver bullion was 1.3 percent of all national wealth in 1929. By 1936 the bullion program of the Government had increased our stock of these precious metals 139 percent, so that gold and silver accounted for 3.6 percent of the Nation's wealth. The value of these bullions in 1929 was $4,664,000,000; by 1936 it had increased to $11,158,000,000.

WEALTH OF THE STATES

In table 3, the total wealth of the United States just described is distributed by States. In table 4, chart 2, it is distributed on a per capita basis by States. The tables should be considered together to bring out certain important relationships which would otherwise not appear. For example, in 1929, Montana ranked fortieth

among the States in terms of its proportion of national wealth, and moved up to twenty-fifth place in 1936. It is not densely populated, nor is it experiencing appreciable growth, so that it moved from thirteenth place in per capita wealth in 1929 to second in 1936.

TABLE 3.—*Total wealth of the United States, by States, 1929 and 1936*

[Dollar figures in millions]

State	1929			1936			1936 over 1929	
	Rank	Amount	Percent	Rank	Amount	Percent	Amount	Percent increase
New York	1	$54,845	15.8	1	$50,257	17.1	−$4,588	−8.4
Pennsylvania	2	30,677	8.8	2	27,796	9.4	−2,881	−9.4
Illinois	3	26,885	7.7	3	20,243	6.9	−6,642	−24.7
California	4	22,214	6.4	4	16,616	5.6	−5,598	−25.2
Ohio	5	21,394	6.2	5	16,075	5.5	−5,319	−24.9
Michigan	6	15,709	4.5	6	12,460	4.3	−3,249	−20.7
Massachusetts	7	13,458	3.9	7	11,586	3.9	−1,872	−13.9
New Jersey	8	11,515	3.3	9	9,560	3.2	−1,955	−17.0
Texas	9	11,296	3.3	8	9,737	3.3	−1,559	−13.8
Wisconsin	10	10,341	3.0	11	7,853	2.7	−2,488	−24.1
Indiana	11	9,611	2.8	10	8,209	2.8	−1,402	−14.6
Missouri	12	9,014	2.6	12	7,259	2.5	−1,755	−19.5
Minnesota	13	6,367	1.8	16	5,057	1.7	−1,310	−20.6
Connecticut	14	5,740	1.7	15	5,089	1.7	−651	−11.3
Kansas	15	5,720	1.6	19	4,099	1.4	−1,621	−28.3
Iowa	16	5,523	1.6	13	6,586	2.2	1,063	19.2
North Carolina	17	5,136	1.5	17	4,373	1.5	−763	−14.9
Nebraska	18	4,937	1.4	24	3,089	1.1	−1,848	−37.4
Virginia	19	4,667	1.3	14	5,387	1.8	720	15.4
Washington	20	4,605	1.3	18	4,274	1.5	−331	−7.2
Maryland	21	4,531	1.3	20	4,084	1.4	−447	−9.9
Oklahoma	22	4,344	1.3	23	3,409	1.2	−935	−21.5
Tennessee	23	3,931	1.1	21	3,717	1.3	−214	−5.4
Kentucky	24	3,884	1.1	22	3,454	1.2	−430	−11.1
Georgia	25	3,553	1.0	26	2,962	1.0	−591	−16.6
West Virginia	26	3,530	1.0	28	2,811	1.0	−719	−20.4
Alabama	27	3,164	6.9	27	2,831	1.0	−333	10.5
Louisiana	28	3,014	.9	29	2,659	.9	−355	−11.8
Oregon	29	2,994	.9	30	2,627	.9	−367	−12.3
Colorado	30	2,874	.8	33	2,093	.7	−781	−27.2
South Dakota	31	2,807	.8	37	1,711	.6	−1,096	−39.0
Florida	32	2,602	.7	34	2,052	.7	−550	−21.0
North Dakota	33	2,231	.6	39	1,539	.5	−692	−31.0
Maine	34	2,133	.6	35	1,981	.7	−152	−7.1
Rhode Island	35	2,085	.6	36	1,903	.6	−182	−8.7
District of Columbia	36	2,080	.6	31	2,552	.9	472	22.7
South Carolina	37	1,976	.6	32	2,166	.7	190	9.6
Arkansas	38	1,881	.5	38	1,558	.5	−323	−17.2
Mississippi	39	1,834	.5	40	1,478	.5	−356	−19.4
Montana	40	1,819	.5	25	2,988	1.0	1,169	64.3
Idaho	41	1,636	.5	41	1,273	.4	−363	−22.2
Arizona	42	1,513	.4	44	975	.3	−538	−35.6
Utah	43	1,421	.4	43	1,152	.4	−269	−18.9
New Hampshire	44	1,382	.4	42	1,197	.4	−185	−13.4
Wyoming	45	1,185	.3	46	833	.3	−352	−29.7
Vermont	46	886	.3	45	858	.3	−28	−3.2
New Mexico	47	744	.2	47	698	.2	−46	−6.2
Delaware	48	730	.2	48	662	.2	−68	−9.3
Nevada	49	650	.2	49	651	.2	1	.2
Total		[1] 347,068	100.0		[1] 294,481	100.0	−52,587	−15.2

[1] Excludes wealth items that cannot be distributed by States. Discrepancies between totals and sum of items are due to rounding of the latter.

Source: Based on National Industrial Conference Board, Enterprise and Social Progress, New York, 1939, p. 62.

TABLE 4.—*Per capita wealth of the United States, by States, 1929 and 1936*

State	1929		1936		1936 over 1929	
	Rank	Amount	Rank	Amount	Amount	Percent increase
Nevada	1	$7,220	1	$6,511	−$709	−9.8
Wyoming	2	5,313	5	3,576	−1,737	−32.7
New York	3	4,113	4	3,885	−528	−12.0
District of Columbia	4	4,306	3	4,122	−184	−4.3
South Dakota	5	4,074	19	2,173	−1,601	−39.3
California	6	4,029	8	2,742	−1,287	−31.9
Idaho	7	3,685	11	2,625	−1,060	−28.8
Connecticut	8	3,610	6	2,935	−675	−18.7
Nebraska	9	3,598	26	2,265	−1,333	−37.0
Illinois	10	3,562	17	2,580	−982	−27.6
Wisconsin	11	3,515	10	2,700	−845	−23.8
Arizona	12	3,536	21	2,401	−1,135	−32.1
Montana	13	3,380	2	5,628	2,248	66.5
Michigan	14	3,303	13	2,605	−698	−21.1
North Dakota	15	3,291	30	2,189	−1,102	−33.5
Ohio	16	3,250	22	2,395	−855	−26.3
Pennsylvania	17	3,207	9	2,742	−465	−14.5
Massachusetts	18	3,188	12	2,618	−570	−17.9
Oregon	19	3,181	16	2,583	−598	−18.8
Delaware	20	3,081	18	2,554	−527	−17.1
Rhode Island	21	3,061	7	2,795	−266	−8.7
Kansas	22	3,054	31	2,174	−880	−28.8
Indiana	23	2,989	23	2,373	−616	−20.6
New Hampshire	24	2,977	24	2,357	−620	−20.8
Washington	25	2,975	14	2,602	−373	−12.5
New Jersey	26	2,895	29	2,209	−686	−23.7
Utah	27	2,820	28	2,233	−587	−20.8
Maryland	28	2,800	20	2,440	−360	−12.9
Colorado	29	2,793	33	1,963	−830	−29.7
Maine	30	2,683	25	2,323	−360	−13.4
Minnesota	31	2,496	34	1,919	−577	−23.1
Missouri	32	2,495	35	1,834	−661	−26.5
Vermont	33	2,469	27	2,258	−211	−8.5
Iowa	34	2,239	15	2,590	351	15.7
West Virginia	35	2,065	38	1,536	−529	−25.6
Texas	36	1,968	37	1,592	−376	−19.1
Virginia	37	1,933	32	2,017	84	4.3
Oklahoma	38	1,834	39	1,349	−485	−26.4
Florida	39	1,817	43	1,250	−567	−31.2
New Mexico	40	1,775	36	1,654	−121	−6.8
North Carolina	41	1,643	41	1,265	−378	−23.0
Tennessee	42	1,514	40	1,298	−216	−14.3
Kentucky	43	1,494	44	1,198	−296	−19.8
Louisiana	44	1,449	42	1,253	−196	−13.5
Georgia	45	1,222	47	968	−254	−20.8
Alabama	46	1,206	46	988	−218	−18.1
South Carolina	47	1,139	45	1,165	26	2.3
Arkansas	48	1,019	48	770	−249	−24.4
Mississippi	49	920	49	736	−184	−20.0
United States		[1] 2,856		[1] 2,293	−563	−19.7

[1] Excludes wealth items that cannot be distributed by States.

Source: Based on National Industrial Conference Board, Enterprise and Social Progress, New York, 1939, p. 64.

While the wealth of a State is a basic measure of its economic status and ability to support adequate social services through taxation, it is not conclusive evidence. Nor is there a one-to-one ratio between per capita wealth and realized income in the several States, as seen from table 5, chart 3.

TABLE 5.—*Per capita income in the United States by States, 1929 and 1936*

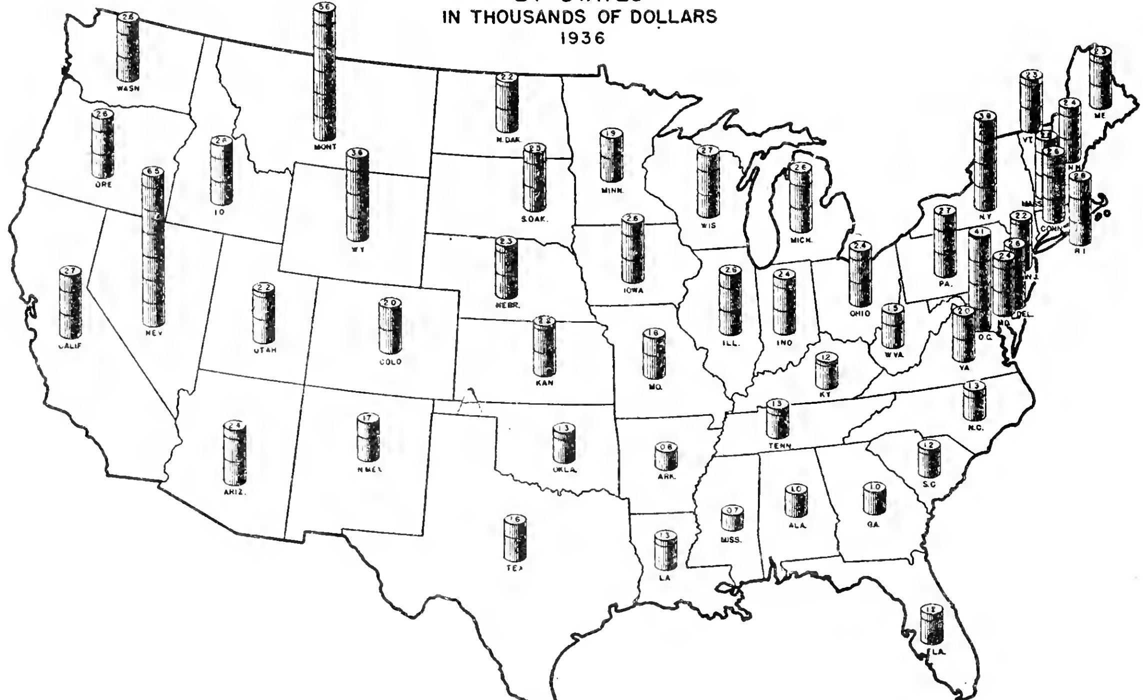
State	1929		1936		1936 over 1929	
	Rank	Amount	Rank	Amount	Amount	Percent change
District of Columbia	1	$1,176	1	$1,139	−$37	−3.2
New York	2	1,084	2	790	−294	−27.1
Delaware	3	1,030	4	741	−289	−28.1
California	4	952	5	732	−220	−23.1
Connecticut	5	896	6	703	−193	−21.5
Nevada	6	889	3	760	−129	−14.5
Illinois	7	858	10	604	−254	−29.6
Massachusetts	8	809	8	621	−188	−23.2
New Jersey	9	805	11	599	−206	−25.6
Rhode Island	10	775	7	648	−127	−16.4
Michigan	11	744	12	599	−145	−19.5
Pennsylvania	12	735	18	537	−198	−26.9
Washington	13	712	15	562	−150	−21.0
Wyoming	14	700	9	618	−82	−11.7
Ohio	15	696	13	566	−130	−18.7
Maryland	16	680	14	565	−115	−16.9
Oregon	17	647	21	497	−150	−23.2
Wisconsin	18	645	17	540	−105	−16.3
Montana	19	643	16	544	−99	−15.4
Colorado	20	625	19	513	−112	−18.0
Arizona	21	621	23	483	−138	−22.2
New Hampshire	22	595	25	455	−140	−23.5
Maine	23	589	24	460	−129	−21.9
Missouri	24	585	27	441	−144	−24.6
Vermont	25	579	33	416	−163	−28.2
Indiana	26	567	22	486	−81	−14.3
Minnesota	27	557	20	509	−48	−8.6
Idaho	28	550	28	435	−115	−20.9
Nebraska	29	550	34	414	−136	−24.7
Utah	30	550	29	434	−116	−21.1
Kansas	31	536	30	427	−109	−20.3
Florida	32	511	26	446	−65	−12.7
Iowa	33	500	31	421	−79	−15.8
North Dakota	34	484	42	292	−192	−39.7
Texas	35	463	37	374	−89	−19.2
West Virginia	36	454	35	398	−56	−12.3
South Dakota	37	451	40	306	−145	−32.3
Oklahoma	38	436	39	316	−120	−27.5
New Mexico	39	411	32	419	8	1.9
Virginia	40	403	38	344	−59	−14.6
Louisiana	41	389	36	377	−12	−3.1
Kentucky	42	365	43	286	−79	−21.6
Tennessee	43	351	44	284	−67	−19.1
Georgia	44	328	41	293	−35	−10.7
North Carolina	45	307	45	284	−23	−7.5
Alabama	46	304	47	237	−67	−22.0
Arkansas	47	296	48	221	−75	−25.3
Mississippi	48	269	49	215	−54	−20.1
South Carolina	49	264	46	262	−2	−.8
UNITED STATES		655		510	−145	−22.1

Source: Adapted from National Industrial Conference Board, Enterprise and Social Progress, New York, 1939, pp. 116–117 and population estimates of Bureau of the Census, as reported in Statistical Abstract of the United States, 1939, p. 9.

Wealth is far from evenly distributed among the 48 States. The first 7, or 14.6 percent of all, possess 52.6 percent of the Nation's wealth. The last 7 possess only 2.1 percent of the national wealth. The former, with the exception of California, are highly industrialized States; all have large populations and powerful financial centers. The latter are either small or sparsely settled, with little manufacturing industry or intensified agricultural development.

CHART 2

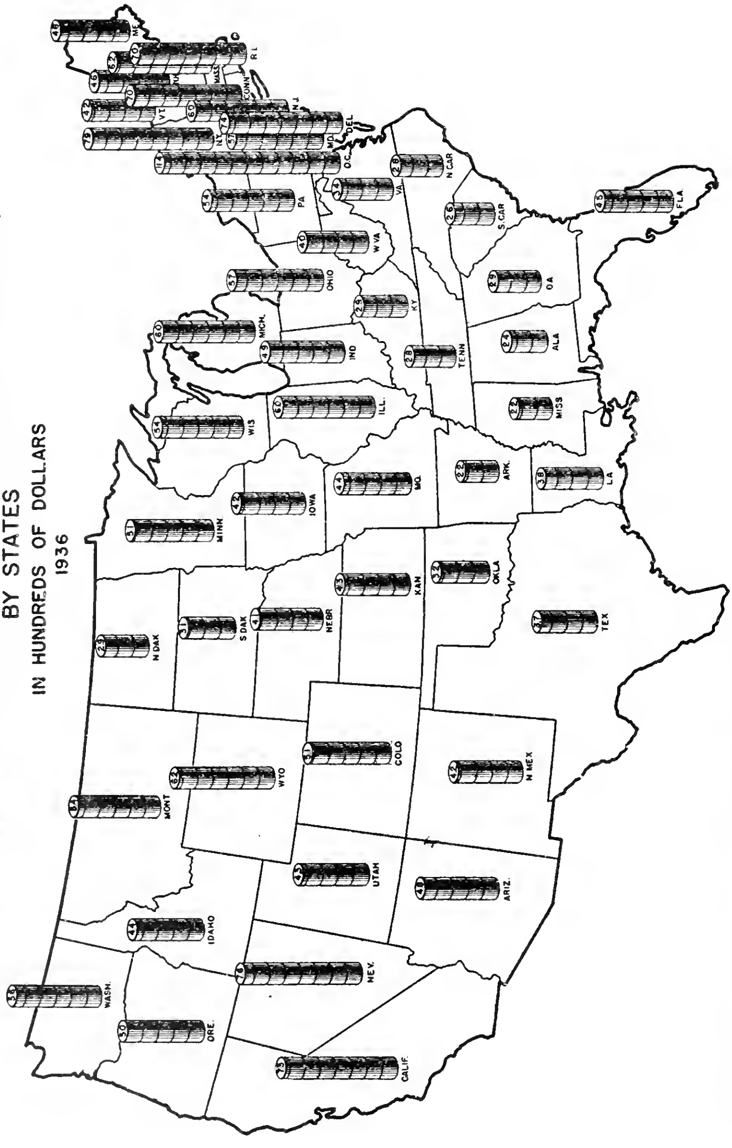
PER CAPITA WEALTH OF THE UNITED STATES
BY STATES
IN THOUSANDS OF DOLLARS
1936



SOURCE Based on ENTERPRISE AND SOCIAL PROGRESS, National Industrial Conference Board, New York, 1939, p. 64

CHART 3

PER CAPITA INCOME IN THE UNITED STATES
BY STATES
IN HUNDREDS OF DOLLARS
1936



SOURCE: Data Taken From, ENTERPRISE AND SOCIAL PROGRESS, National Industrial Conference Board, New York City, 1939, p. 75
Population Figures From, STATISTICAL ABSTRACT OF THE UNITED STATES, 1937, Washington, D.C. 1938, p. 9

From 1929 to 1936 only Iowa, Virginia, Alabama, District of Columbia, South Carolina, Nevada, and Montana experienced an increase in total wealth. Five States, Nebraska, North and South Dakota, Arizona, and Wyoming, lost 30 percent or more of their assets in this period. Ten States lost less than 10 percent of their wealth. Among the latter were the two wealthiest, and three of the poorest States.

Per capita wealth in the United States was $2,856 in 1929, and dropped to $2,293 in 1936, a decline of $563, or 19.7 percent. Only 4 States, Montana, Iowa, Virginia, and South Carolina, experienced an increase in per capita wealth in 1936 as compared with 1929. Seventeen States and the District of Columbia lost proportionately less wealth than the national average. They include sparsely and thickly settled States, and industrial and agricultural States, located on both coasts, in the North, and in the deep South.

Among the 27 States which suffered a percentage per capita wealth reduction greater than the national average, 7 lost approximately a third of their assets. The States so seriously affected are as follows:

	Percentage decrease 1936 over 1929
South Dakota	39. 3
Nebraska	37. 0
North Dakota	33. 5
Wyoming	32. 7
Arizona	32. 1
California	31. 9
Florida	31. 2

Per capita wealth declined most severely among certain predominantly agricultural States, whose population either remained stable or increased.

POPULATION

Table 6, chart 4, gives the number and trend of population in the United States from 1750 to 1980. In these figures can be roughly traced the greatest migration of peoples known to history. The decennial gains in total population have been phenomenal.

Table 6.—*Growth of population in the United States, 1750–1930, and estimates to 1980*

[Population figures in thousands]

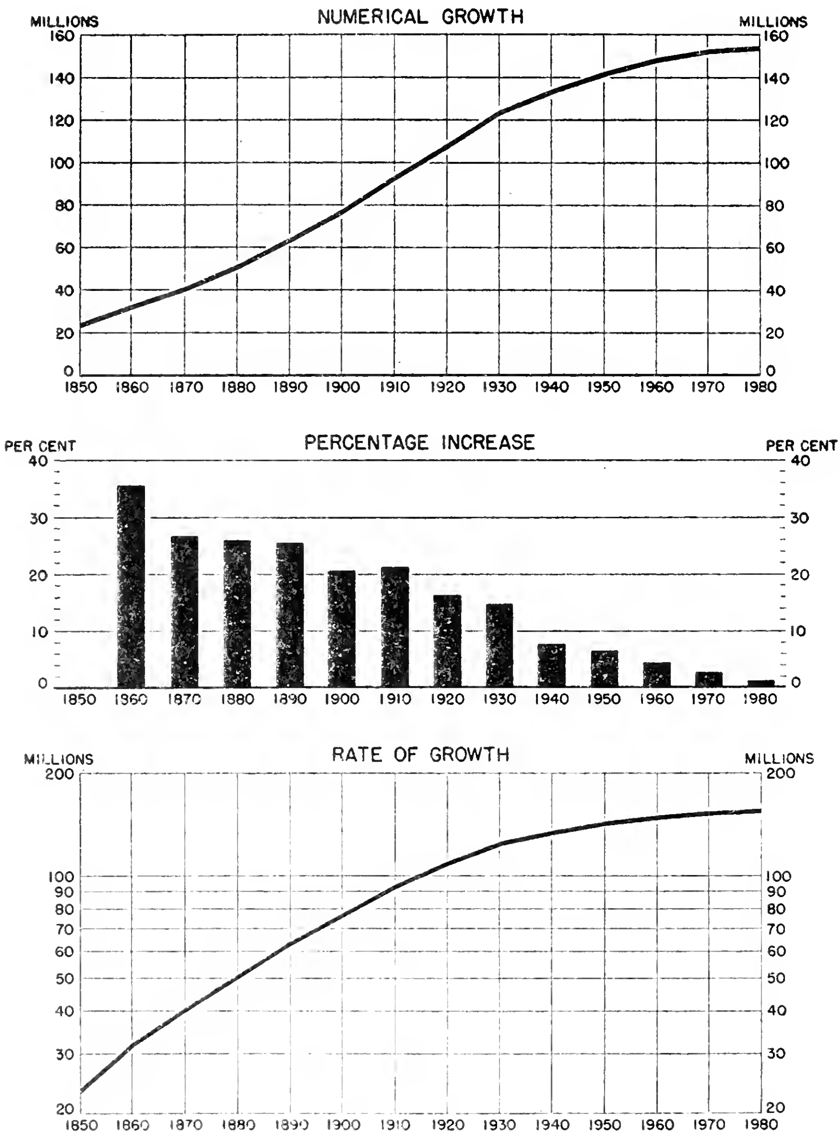
Year	Total number	Percent increase	Domestic count		Annual net immigration	
			Number	Percent increase	Number	Percent increase
1750	1, 207					
1850	23, 260	1, 827. 1	22, 970		290	
1860	31, 502	35. 4	31, 351	36. 5	151	−47. 9
1870	39, 904	26. 7	39, 517	26. 0	387	156. 3
1880	50, 262	26. 0	49, 805	26. 0	457	18. 1
1890	63, 056	25. 5	62, 601	25. 7	455	−. 4
1900	76, 129	20. 7	75, 662	20. 9	467	2. 6
1910	92, 267	21. 2	91, 231	20. 6	1, 036	121. 8
1920	107, 190	16. 2	106, 763	17. 0	427	−58. 8
1930	123, 091	14. 8	122, 849	15. 1	242	−43. 3
1940	132, 630	7. 7				
1950	141, 213	6. 5				
1960	147, 612	4. 5				
1970	151, 783	2. 8				
1980	153, 628	1. 2				

Source: Adapted from National Industrial Conference Board, Enterprise and Social Progress, New York 1939, pp. 28, 29.

CHART 4

GROWTH OF POPULATION OF THE UNITED STATES

1850-1980



SOURCE Adapted from ENTERPRISE AND SOCIAL PROGRESS, National Industrial Conference Board, New York, 1939, p 28

Beginning with 1870, as a more reliable census than the earlier ones recorded in the table, population increased more than 25 percent in each decade until 1900; the count of that year and of 1910 each showed 20 percent more people in the United States; and despite a sharp decline in net immigration after 1910 the population increased 16 percent from 1910 to 1920, and 15 percent from 1920 to 1930. By the 1930 census, the total number of inhabitants in the country reached its highest point up to that time, 123,091,000.

Net immigration has reflected changes in public policy, national politics, and economics in the United States and the countries from which the principal streams of immigration have come. The depressions of 1914, 1922, and 1930, coupled with World War conditions and the relatively large population which had settled in this country, resulted in the enactment of quota laws restricting immigration. The effect has been that from the peak of 1910, when total net immigration was 1,036,000, the net increase of newcomers over persons leaving the United States fell to 242,000 in 1930. Since then further declines have been noted.

The projected figures 1940–80 are the results of careful statistical studies made by the National Resources Committee,[2] estimated on a basis of medium fertility and mortality, and no net immigration. The population, while increasing in each successive decade, does so at a much lessened rate. This is the result of two factors, the stoppage of net immigration, and the declining birthrate of the American people. The estimated decennial increase in population drops from 7.7 percent in 1940 to 1.2 percent in 1980. Yet it must be remembered that in actual numbers even these small percentages represent substantial increases in population. The expected gain in number of people from 1930 to 1940 is 9,539,000; from 1970 to 1980 it is estimated at 1,845.000.

In the five decades from 1870 to 1930, the Nation's population increased 72,829,000, whereas in the five decades from 1930 to 1980, it is expected to gain only 30,537,000. Yet it is important for tax purposes and economic policy to know that population will in all probability continue to increase substantially until, and beyond, 1980.

In table 7, chart 5, the percentage distribution of the population by age groups is displayed. The period from 1930 to 1980 is expected to result in a very marked change in the composition of the population, as indicated in the following figures:

Age group	Percentage	
	1930	1980
0 to 4	9.8	6.5
5 to 19	29.3	19.6
20 to 44	38.1	33.7
45 to 64	17.4	25.9
65 plus	5.4	14.3
	100.0	100.0

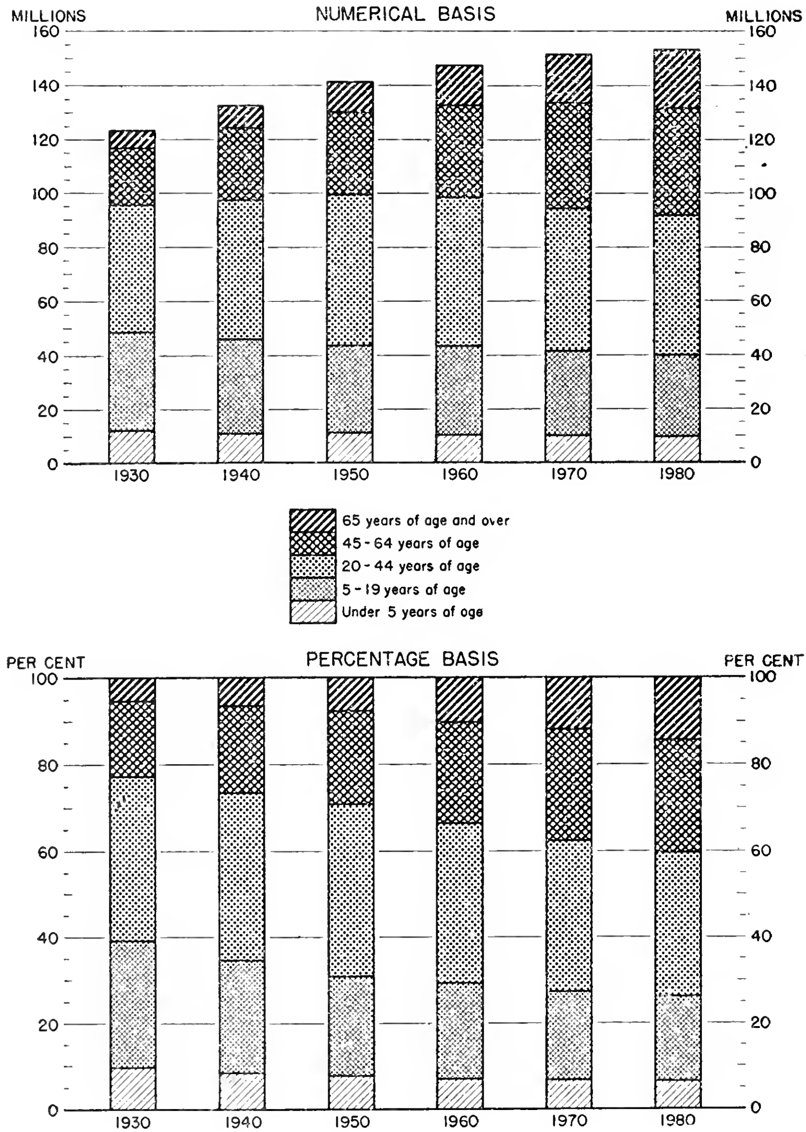
[2] National Resources Committee, Population Statistics, National Data, Washington, October 1937, p. 9 ff.

CHART 5

POPULATION OF THE UNITED STATES

BY AGE GROUPS

1930-1980



SOURCE: Based upon ENTERPRISE AND SOCIAL PROGRESS, National Industrial Conference Board, New York, 1939, p 30

The first column shows the actual age distribution of the population in 1930, and the second the expected composition in 1980. Relatively speaking, the child and youth population will decline in importance, the population from 20 to 44 will decline somewhat, and those over 45 will greatly increase. As the Nation becomes matured, the birth rate declines, and longevity increases because of improved health and hygiene; hence the proportion of young people in the population becomes smaller. Whereas, in 1930 only 5.4 percent of the population were over 65, by 1980 that figure is expected to reach 14.3 percent.

TABLE 7.—*Percentage age distribution of population of the United States,[1] 1930, and estimates to 1980*

[Population figures in thousands]

Year	Total population	Percentage distribution					
		0–4 years	5–19 years	20–44 years	45–64 years	65 and over	Total
1930	123, 465	9. 8	29. 3	38. 1	17. 4	5. 4	100. 0
1940	132, 630	8. 3	26. 4	38. 8	20. 2	6. 3	100. 0
1950	141, 213	7. 9	23. 0	40. 0	21. 4	7. 9	100. 0
1960	147, 612	7. 1	22. 2	37. 4	23. 3	10. 0	100. 0
1970	151, 783	6. 7	20. 6	35. 0	25. 9	11. 9	100. 0
1980	153, 628	6. 5	19. 6	33. 7	25. 9	14. 3	100. 0
1980 over 1930	30, 163	−18. 4	−17. 0	10. 1	85. 7	232. 2	24. 4

[1] Estimates assume medium fertility, medium mortality and no net immigration.

Source: Based upon National Industrial Conference, Enterprise and Social Progress, New York, 1939, p. 30.

The expected population increase of somewhat more than 30,000,000 from 1930 to 1980 will be at the expense of the people below 20 years of age. In that period, the proportion of children from infancy to 4 years will have declined 18.4 percent, and of those from 5 to 19 years, 17 percent. The population from 20 to 44 years will have increased 10.1 percent, that from 45 to 64 will have gained 85.7 percent, and people above 65 years will have increased 232 percent.

While the foregoing discussion of table 7 indicates the altering age composition of the population, it does not show the actual number of persons involved in these changes. Table 8 is offered for that purpose. The age groups in 1930 and 1980 compare as follows:

Age group	1930	1980
0 to 4	12 144, 000	9, 906, 000
5 to 19	36, 193, 000	30, 047, 000
20 to 44	47, 059, 000	51, 817, 000
45 to 64	21, 431, 000	39, 807, 000
65 plus	6, 638, 000	22, 051, 000
All	123, 465, 000	153, 628, 000

The loss in the maximum school-attending group of the population is substantial. But this does not warrant the hasty conclusion that educational costs can be greatly lowered in the immediate future. These figures on total population of certain ages are not immediately translatable into school-attendance figures. A longer schooling period may be in prospect, which will more than offset the decline in school-age population. Also, the trend of population from 5 to 19 years

almost flattens out after 1950, with a loss from that date until 1980 estimated at 7.7 percent.

TABLE 8.—*Age distribution of the population of the United States,*[1] *1930, and estimates to 1980*

Year	Total number	Per cent increase	0 to 4 years		5 to 19 years		20 to 44 years		45 to 64 years		65 years and over	
			Number	Per-cent increase	Number	Per-cent increase	Number	Per-cent increase	Number	Per-cent increase	Number	Per-cent increase
1930	123, 465	......	12, 144	......	36, 193	......	47, 059	......	21, 431	......	6, 638	......
1940	132, 630	7. 4	11, 032	−9. 2	35, 052	−3. 2	51, 398	9. 2	26, 730	24. 7	8, 418	26. 8
1950	141, 213	6. 5	11, 182	1. 4	32, 540	−7. 2	56, 029	9. 0	30, 259	13. 2	11, 203	33. 1
1960	147, 612	4. 5	10, 538	−5. 8	32, 721	. 6	55, 199	−1. 5	34, 336	13. 5	14, 818	32. 3
1970	151, 783	2. 8	10, 155	−3. 6	31, 238	−4. 5	53, 094	−3. 8	39, 301	14. 5	17, 995	21. 4
1980	153, 628	1. 2	9, 906	−2. 5	30, 047	−3. 8	51, 817	−2. 4	39, 807	1. 3	22, 051	22. 5
1980 over 1930	30, 163	24. 4	−2, 238	−18. 4	−6, 146	−17. 0	4, 758	10. 1	18, 376	85. 7	15, 413	232. 2

[1] Estimates assume medium fertility, medium mortality, and no net immigration.

Source: Based upon National Industrial Conference Board, Enterprise and Social Progress, New York, 1939, p. 30.

From 1930 to 1980 there is a gain of 4,758,000 in the group aged 20 to 44. But such a comparison conceals the trend, for the gain is registered between 1930 and 1950. From that date forward there is a slight decline each 10 years, resulting in a loss of 4,212,000 persons by 1980 from the peak number of 1950.

The groups aged 45 to 64 and 65 and over show a continuous but uneven decennial gain from 1930 to 1980. For the former group, the rate of growth levels off after 1950, and declines sharply from 1970 to 1980, so that the population in the last decade is almost static. In the group over 65, the rate of growth, while fluctuating, continues high throughout the 50-year span. Chart 5 shows these figures graphically.

Table 9, chart 6, on the number of families in the United States, is also significant to a study of the tax problem. The data are not available on precisely the same basis as table 8, as they assume low fertility instead of medium fertility. The family is a unit of major economic significance since a large part of the durable and consumers' goods are purchased on a family basis, and the need for and use of many tax-supported social facilities are determined by the number and character of families.

TABLE 9.—*Estimated number of private families in the United States, 1920–80, and decennial change*

Year	Number[1]	Decennial percentage increase	Decennial increase in number	Year	Number[1]	Decennial percentage increase	Decennial increase in number
1920	24, 258, 312	......	......	1960	43, 133, 400	9. 8	3, 867, 600
1930	29, 904, 663	23. 3	5, 646, 351	1970	45, 660, 400	5. 9	2, 527, 000
1940	34, 367, 600	14. 9	4, 462, 937	1980	46, 405, 600	1. 6	745, 200
1950	39, 265, 800	14. 3	4, 898, 200				

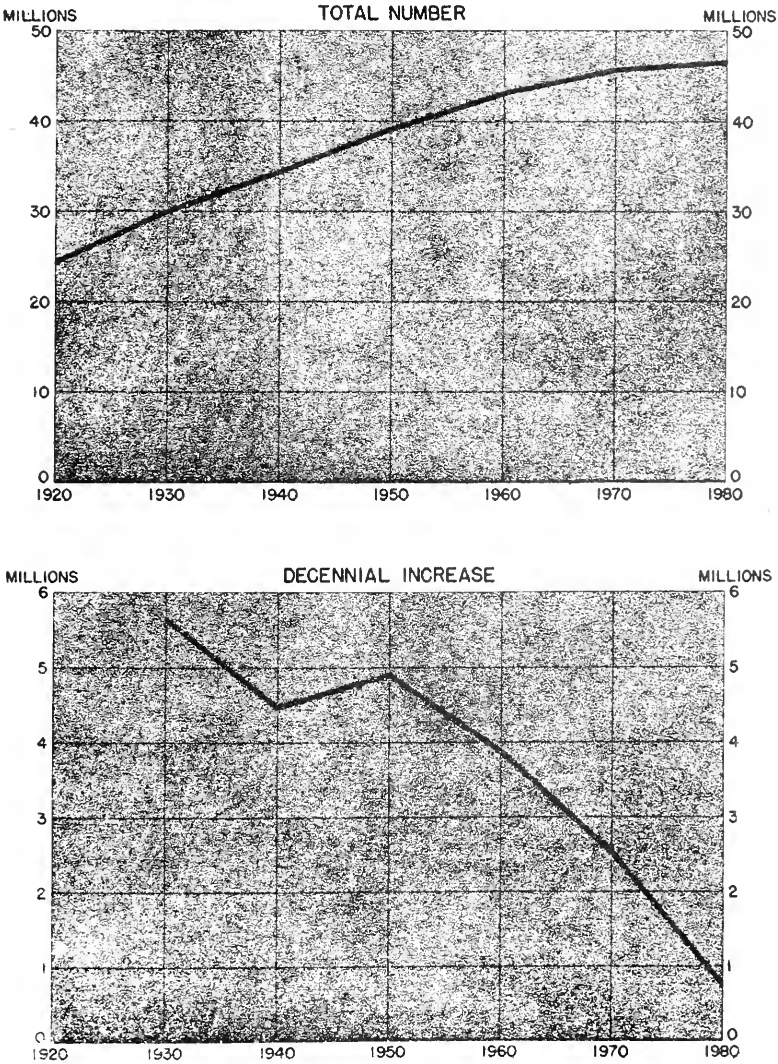
[1] Number of families is based on estimate of low fertility, medium mortality, and no immigration.

Source: National Resources Committee, Problems of a Changing Population. 1938, p. 25.

CHART 6

ESTIMATED NUMBER OF PRIVATE FAMILIES

UNITED STATES, 1920-1980



SOURCE: PROBLEMS OF A CHANGING POPULATION, National Resources Committee, 1938, p 25.

The number of families increased 23 percent from 1920 to 1930. It is predicted that they will continue to increase, though not at the same high rate, until 1980. By that year it is estimated that the number of families will total 46,405,600, a gain of 55.2 percent since 1930. The last column in the table indicates decennial increases. The importance of the displays of the whole numbers is shown in data for 1940 and 1950. Whereas the rate of increase drops in 1950, the actual gain in number of families is greater than in the preceding decade.

The decennial increases for the population as a whole are not nearly so great as for the number of families. Families are growing smaller, and at the same time are becoming more numerous, because the birth rate is declining and because by 1950 the number of young people will have reached its peak.

NATIONAL LABOR FORCE

The labor force is a productive asset of crucial importance to the economy. In table 10, chart 7, the age groups are arranged as new entrants to labor force, matured working population, and older working population. The figures represent the estimated total number of men and women of these ages who will be available for employment from 1940 to 1980.

TABLE 10.—*Estimated labor force in the United States, 1940–80*

[Population figures in thousands]

Year	New entrants to labor force, 20–24 years			Matured working population, 25–44 years			Older working population, 45–64 years			Total, 20–64 years		Percent of total labor force [1]
	Number	Percent increase	Percent of total	Number	Percent increase	Percent of total	Number	Percent increase	Percent of total	Number	Percent increase	
1940	7,632		16.1	24,298		51.2	15,530		32.7	47,460		84.8
1950	7,561	−0.9	14.4	27,204	12.0	52.0	17,580	13.2	33.6	52,345	10.3	85.8
1960	6,919	−8.5	12.8	27,302	0.4	50.4	19,949	13.5	36.8	54,170	3.5	84.4
1970	7,031	1.6	12.6	25,906	−5.1	46.5	22,834	14.5	40.9	55,771	3.0	83.6
1980	6,633	−5.7	12.0	25,498	−1.6	46.1	23,128	1.3	41.9	55,259	−.9	82.1
1980 over 1940	−999	−13.1		1,200	4.9		7,598	48.9		7,799	16.4	

[1] Excludes juvenile labor, 10-19 years, and gainful workers of 65 years and over.

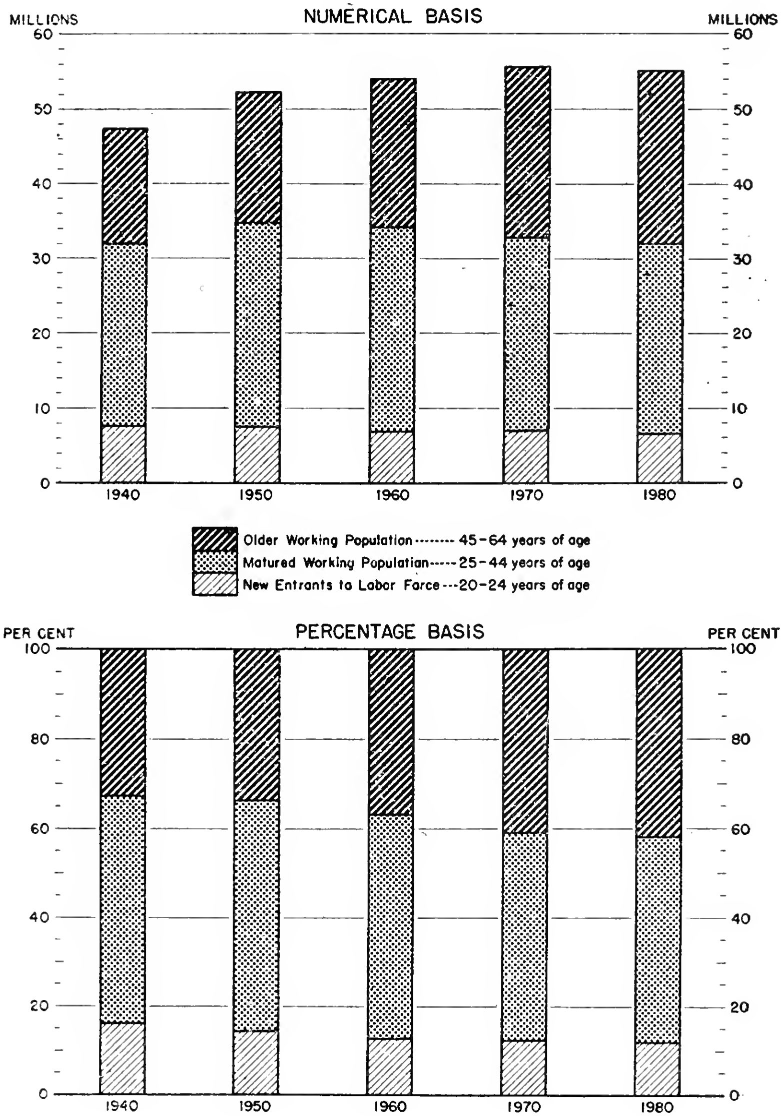
Source: Based on Enterprise and Social Progress, National Industrial Conference Board, New York, 1939, p. 34.

The potential new entrants to the labor force total 7,632,000 in 1940, and 6,633,000 in 1980, a decline of 13 percent. The matured working population may anticipate an increase from 24,298,000 in 1940 to 25,498,000 in 1980, a gain of 4.9 percent. The older working population is likely to experience the greatest increase of all, from 15,530,000 in 1930 to 23,128,000 in 1980, a gain of 48.9 percent.

CHART 7

ESTIMATED LABOR FORCE OF THE FUTURE

UNITED STATES, 1940-1980



SOURCE: Based on ENTERPRISE AND SOCIAL PROGRESS, National Industrial Conference Board, New York, 1939, p. 34

The potential labor force will probably be distributed among the three age groups as follows:

Age group	Percentage in—	
	1940	1980
20 to 24	16.1	12.0
25 to 44	51.2	46.1
45 to 64	32.7	41.9

Whereas the working population aged 20 to 64 is expected to increase by 7,799,000 between 1940 and 1980, most of that gain will occur in the age group between 45 and 64.

The distribution of the available labor force of the Nation from 1870 to 1930 is shown in table 11, chart 8, and the percentage change is shown in chart 9. It must be remembered that these are census data, and are, therefore, displays of the available labor force, both employed and unemployed, according to the occupational designations which respondents reported to the census takers. They are frequently confused, even in the writings of well-established social scientists, with the employed manpower of the Nation. What they represent, roughly, is the employment emphasis of the economic structure.

TABLE 11.—*Number and percentage distribution of all gainful workers by occupational categories, 1870–1940*

	1870	1880	1890	1900	1910
Agriculture	5,919,987	7,663,043	8,451,097	10,248,935	12,388,309
	47.3	44.1	37.2	35.3	32.5
	(6,344,987)		(9,033,619)		(11,458,309)
	(49.1)		(38.7)		(30.8)
Forestry and fishing	53,196	84,734	159,725	177,035	241,806
	.4	.5	.7	.6	.6
	(.4)		(.7)		(.6)
Extraction of minerals	169,499	256,737	396,395	581,417	960,804
	1.4	1.5	1.7	2.0	2.5
	(1.3)		(1.7)		(2.6)
Manufacturing and mechanical industries	3,463,781	5,267,079	7,061,138	9,054,982	10,514,805
	27.7	30.3	31.1	31.1	27.5
	(26.8)		(30.3)		(28.2)
Transportation and communication	403,274	582,944	1,089,161	1,456,732	2,510,498
	3.2	3.4	4.8	5.0	6.6
	(3.1)		(4.7)		(6.7)
Trade	573,574	833,717	1,476,022	2,232,771	3,719,797
	4.6	4.8	6.5	7.7	9.7
	(4.4)		(6.3)		(10.0)
Public service	70,367	[1] 107,226	[1] 185,138	[1] 260,392	644,705
	.6	.6	.8	.9	1.7
	(.5)		(.8)		(1.7)
Professional service	332,179	543,511	881,783	1,148,155	1,614,012
	2.7	3.1	3.9	3.9	4.2
	(2.6)		(3.8)		(4.3)
Domestic and personal service	1,208,142	[1] 1,522,025	[1] 2,204,891	[1] 2,777,610	3,842,352
	9.7	8.7	9.7	9.5	10.1
	(9.3)		(9.5)		(10.3)
Clerical occupations	311,889	531,083	830,311	1,135,204	1,631,926
	2.5	3.1	3.7	3.9	4.3
	(2.4)		(3.6)		(4.4)
Census errors	35				98,322
	([2])				.3
					(.3)
Total [3]	12,505,923	17,392,099	22,735,661	29,073,233	38,167,336
	100.0	100.0	100.0	100.0	100.0
	(12,930,923)		(23,318,183)		(37,237,336)
	(99.9)		(100.1)		(99.9)

See footnotes at end of table.

TABLE 11.—*Number and percentage distribution of all gainful workers by occupational categories, 1870–1940*—Continued

	1920	1930	1940 (estimate)	1940 over 1870
Agriculture	10,665,812 25.6 (11,199,102) (26.6)	10,471,998 21.4	9,271,998 17.5	3,352,011 56.6
Forestry and fishing	270,214 .6 (.6)	250,469 .5	270,469 .5	217,273 408.4
Extraction of minerals	1,084,751 2.6 (2.6)	980,199 2.0	1,140,199 2.2	970,700 572.7
Manufacturing and mechanical industries	12,457,631 29.9 (29.6)	13,620,875 27.9	13,864,875 26.3	10,401,004 300.3
Transportation and communication	3,053,783 7.3 (7.2)	3,998,206 8.2	4,874,206 9.2	4,470,932 1,108.7
Trade	4,418,751 10.6 (10.5)	6,277,574 12.9	7,277,574 13.8	6,704,000 1,168.8
Public service	897,024 2.2 (2.1)	1,218,257 2.5	1,518,257 2.9	1,447,890 2,057.6
Professional service	1,999,168 4.8 (4.7)	2,927,322 6.0	3,583,322 6.8	3,251,143 978.7
Domestic and personal service	3,534,604 8.5 (8.4)	5,255,803 10.8	5,412,803 10.3	4,204,661 348.0
Clerical occupations	2,950,769 7.1 (7.0)	3,829,217 7.8	5,521,297 10.5	5,209,408 1,670.3
Census errors	281,741 .7 (.7)	—		
Total [3]	41,614,248 100.0 (42,147,538) (100.0)	48,829,920 100.0	52,735,000 100.0	40,229,077 321.7

NOTE: Figures in parentheses are revised to accord with corrections in census data. For somewhat different figures for agriculture in 1910, 1920, and 1930, see W. P. A. National Research Project, Report No. A 8, November 1938, p. 11. These figures are, however, annual averages based on numbers employed at first of each month.

[1] Revised figures.
[2] Less than 0.01 percent.
[3] Totals include occupation figures (for 1920, male and female, 281,741; for 1910, male and female, 98,322) omitted in detail because not comparable with 1930 figures, (according to the Fifteenth Census of the United States, 1930, vol. 4).

Source: H. Dewey Anderson and Percy E. Davidson, Occupational Trends, Stanford University Press, Stanford University, 1940, p. 16.

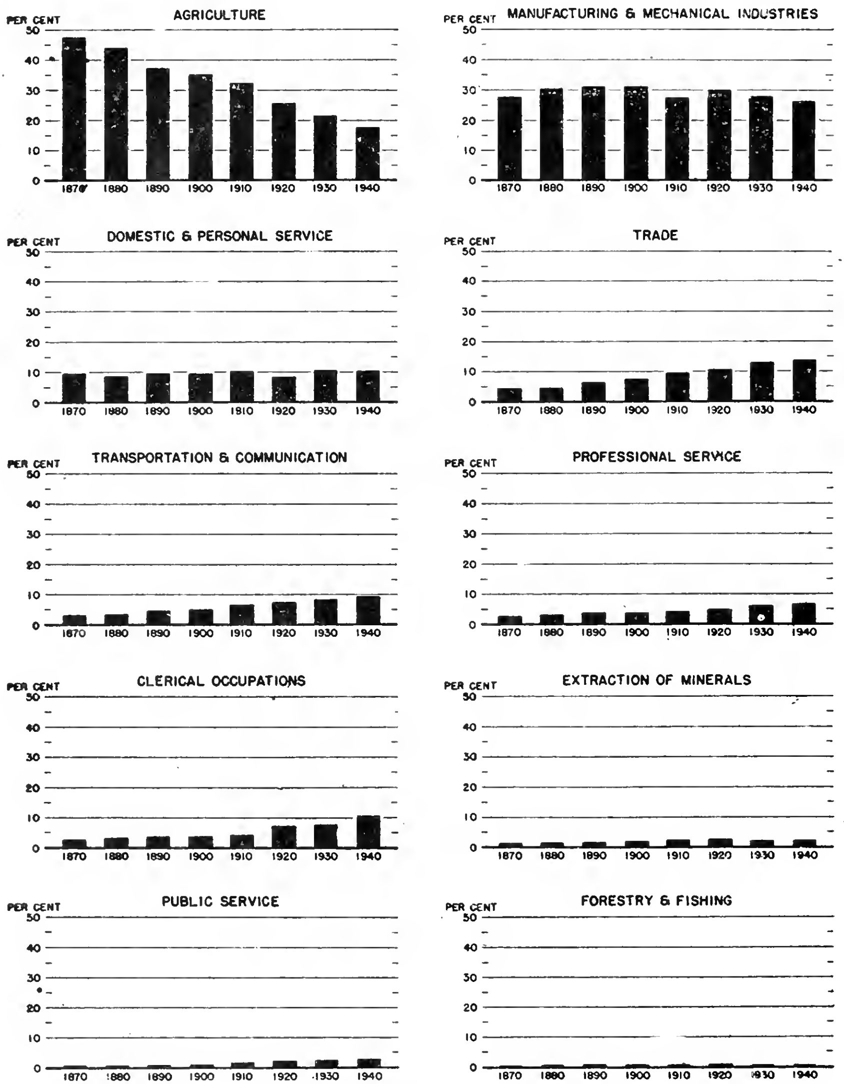
The projection to 1940 is explained in the book from which the table is taken.[3] The authors are inclined to believe that the mass unemployment which has developed since 1930 will alter these figures somewhat, so that the available labor force in 1940 may be expected to be less than shown in the table.

The national labor force has undergone marked changes since 1870. The number of persons available for the various branches of the economy has increased from 1870 to 1930 or 1940, although job designations and occupations within these branches have emerged, altered, and disappeared during this time span. How the economy has shifted in

[3] H. Dewey Anderson and Percy E. Davidson, Occupational Trends, Stanford University Press, Stanford University, 1940.

CHART 8

PERCENTAGES OF GAINFULLY EMPLOYED
BY OCCUPATIONAL GROUPS
UNITED STATES, 1870-1940



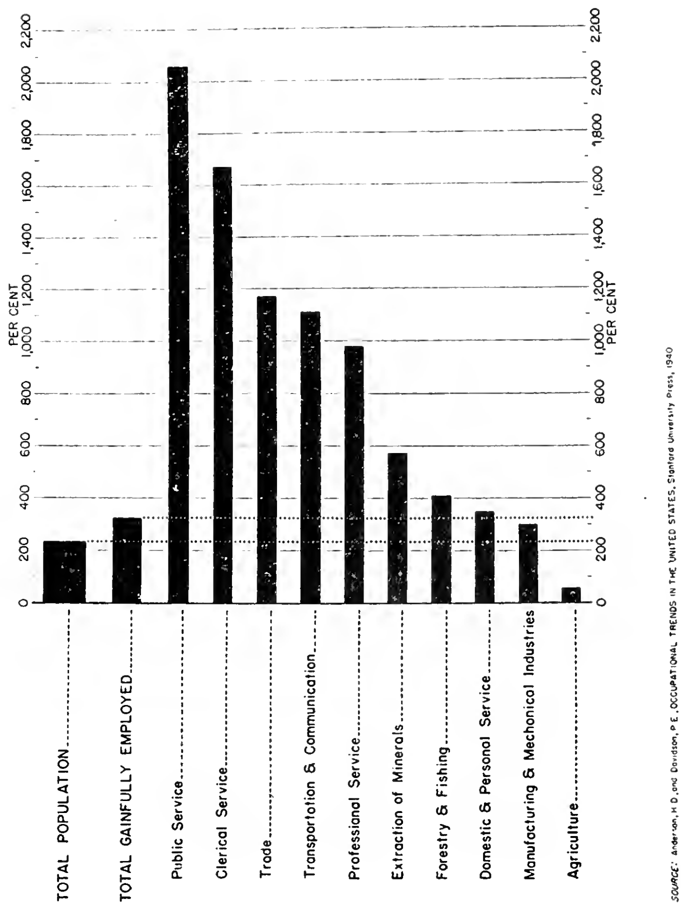
SOURCE: Adapted from Anderson, H. D., and Davidson, P. E., OCCUPATIONAL TRENDS. Stanford University Press, 1940

CHART 9

INCREASE IN POPULATION AND IN GAINFUL EMPLOYMENT

1940 OVER 1870 BY OCCUPATION

UNITED STATES



its occupational patterns may be seen in the following figures taken from the table:

Occupational group	Percentage of labor force	
	1870	1930
Agriculture	47.3	21.4
Forestry-fishing	.4	.5
Extraction of minerals	1.4	2.0
Manufacturing-mechanical	27.7	27.9
Transportation-communication	3.2	8.2
Trade	4.6	12.9
Public service	.6	2.5
Professional service	2.7	6.0
Domestic-personal service	9.7	10.8
Clerical	2.4	7.8
Total	100.0	100.0

While the total population of the United States increased 33 percent from 1910 to 1930 (table 6), the number of workers engaged in production, processing, and transporting of goods, combined, increased only 10 percent; service occupations in trading, managing, personal and professional care expanded 70 percent.[4] However, the numbers engaged in producing, processing, and transporting goods are so large in comparison with those employed in the services that they still form the dominant segment of the gainfully employed.

In table 12, the decennial gains and losses in the national labor force are shown. The 1940 figures are projections. While the total population increased 218 percent from 1870 to 1930 (actual figures), the labor force increased 290 percent. This is the period of greatest and most rapid technological advancement in the United States. Since the rate of increase of the labor force was greater than that of the total population, some have concluded that there was no over-all technological unemployment. The figures do not deal with actual employment of the labor force, hence tell very little concerning technological trends.[5]

TABLE 12.—*Decennial increase of workers by census categories, compared with that of the total population and the total gainfully employed, 1870–1940*

[Percentage]

Census categories	1870	1880	1890	1900	1910	1920	1930	1940 (estimate)	1940 over 1870
Total population		30.1 (25.9)	24.8 (24.9)	21.3 (21.3)	21.0 (21.0)	15.0 (15.0)	16.1 (16.1)	7.9	232.8
Population 10 years old and over		30.2	29.0	22.2	23.5	15.6	19.3		
Gainful workers 10 years old and over		39.1 (34.5)	30.7 (34.1)	27.9 (24.6)	31.3 (28.1)	9.0 (11.7)	17.3 (17.3)	8.0	321.7
Agriculture		29.4 (20.8)	10.3 (17.9)	21.3 (13.5)	20.9 (11.8)	−13.9 (−6.9)	−1.8 (−1.8)	11.5	56.6
Forestry and fishing		59.3	88.5	10.8	36.6	11.7 (−2.2)	−7.3 (−6.4)	8.0	408.4
Extraction of minerals		51.5	54.4	46.7	65.2	12.9	−16.3	16.3	572.7
Manufacturing and mechanical		52.6	34.1	28.2	16.1	18.5	9.3	1.8	300.3
Transportation and communication		44.5	86.8	33.7	72.3	21.6	30.9	21.9	1,108.7
Trade		45.3	77.0	51.3	66.6	18.8	42.1	15.9	1,168.8
Public service		33.4	17.8	17.5	396.7	39.1	35.8	25.6	2,057.6
Professional service		63.6	62.2	30.2	40.6	23.9	46.4	22.4	978.7
Domestic and personal service		27.1	48.5	27.6	32.1	−8.0	48.7	3.0	348.0
Clerical service		70.3	56.3	36.7	43.8	80.8	29.8	44.2	1,670.3

Source: H. Dewey Anderson and P. E. Davidson, Occupational Trends, Stanford University Press, Stanford University, 1940, p. 21.

(Figures in parentheses are revised to accord with census under- and over-count.)

[4] Ibid., ch. I.

[5] Ibid.

The decennial changes in the available labor force reveal a sharp reduction in growth after 1910, despite an accelerated expansion of the national economy. Agriculture, a principal user of labor, showed a decline both in percentage and number of available workers. In the other great employer of labor, manufacturing-mechanical pursuits, the rate of growth slackened perceptibly, having reached its peak in the decade beginning 1930.

The sex composition of the labor force has altered with the years. Males were 85 percent of all gainful workers in 1870, and had dropped to 78 percent by 1930. Females, on the other hand, were 15 percent of the national labor force in 1870, and increased to 22 percent in 1930. This does not necessarily mean that males were crowded out, for the number of both sexes available for labor increased substantially.

NATIONAL INCOME

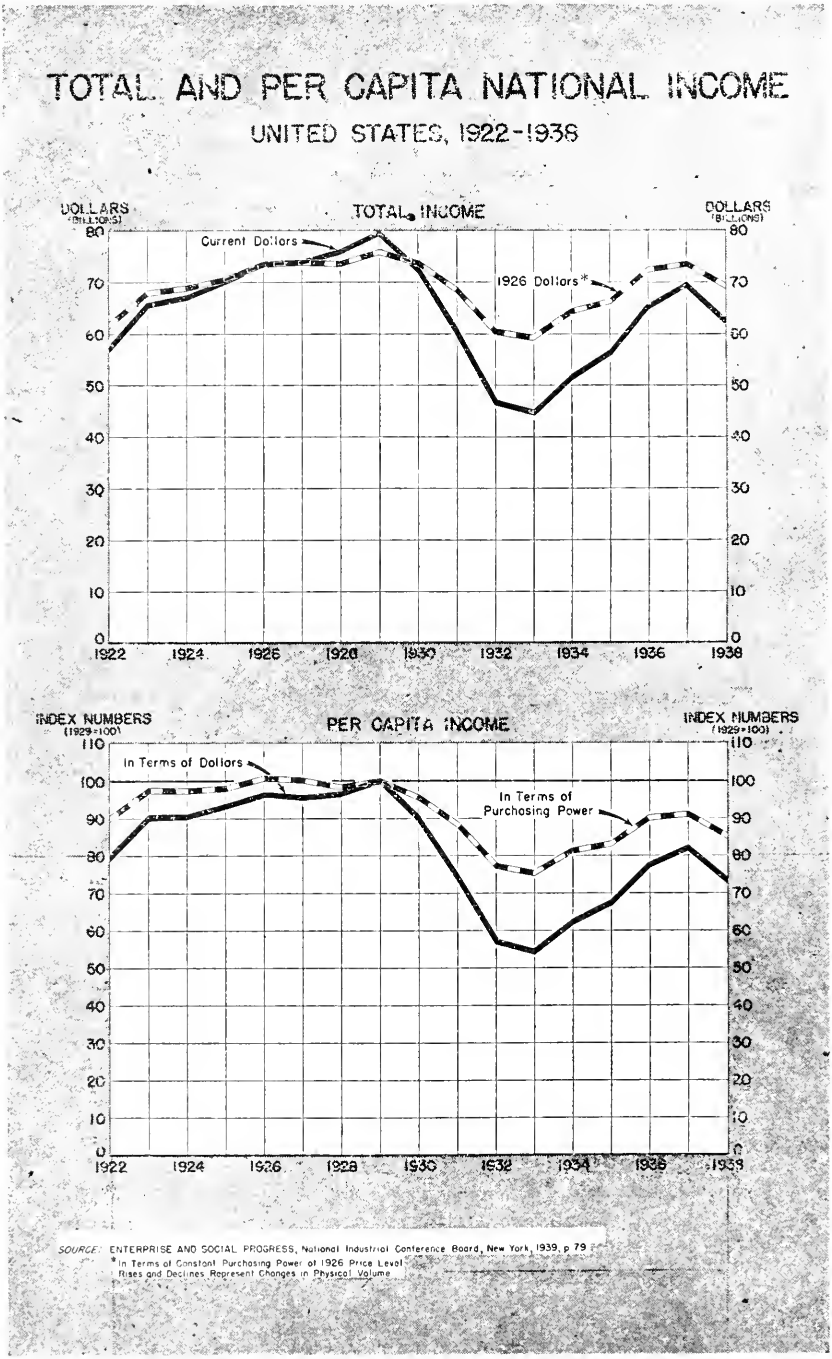
In table 13, chart 11, the realized national income is given for the years from 1922 to 1938. The data include both current dollars, and dollars adjusted by the general price level for the period. Index numbers are calculated with 1929 as a base of 100.0. The data are likewise given on a per capita basis to reflect population changes.

TABLE 13.—*Realized national income, total and per capita, in current dollars and constant dollars of 1926 purchasing power, 1922–38*

Year	Total realized national income				Per capita realized national income			
	Current income	Income adjusted by the general price level	Current income	Income adjusted by the general price level	Current income	Income adjusted by the general price level	Current income	Income adjusted by the general price level
	Millions of dollars		Indexes, 1929=100		Dollars		Indexes, 1929=100	
1922	57,171	61,873	71.9	81.5	520	563	79.5	90.1
1923	65,662	68,044	82.6	89.6	589	610	90.1	97.6
1924	67,003	69,004	84.3	90.9	592	610	90.5	97.6
1925	70,051	70,474	88.1	92.8	610	614	93.3	98.2
1926	73,523	73,523	92.5	96.8	631	631	96.5	101.0
1927	73,966	73,966	93.0	97.4	626	626	95.7	100.2
1928	75,904	73,765	95.5	97.1	633	615	96.8	98.4
1929	79,498	75,929	100.0	100.0	654	625	100.0	100.0
1930	72,398	73,725	91.1	97.1	588	599	89.9	95.8
1931	60,203	68,647	75.7	90.4	485	553	74.2	88.5
1932	46,708	60,503	58.8	79.7	374	484	57.2	77.4
1933	44,713	59,301	56.2	78.1	356	472	54.4	75.5
1934	51,560	64,370	64.9	84.8	407	508	62.2	81.3
1935	56,254	66,337	70.8	87.4	441	520	67.4	83.2
1936	65,246	72,415	82.1	95.4	508	564	77.7	90.2
1937	69,419	73,693	87.3	97.1	537	570	82.1	91.2
1938	62,450	69,312	78.6	91.3	480	533	73.4	85.3

Source: National Industrial Conference Board, Enterprise and Social Progress, New York, 1939, p. 79.

CHART 10


TOTAL AND PER CAPITA NATIONAL INCOME
UNITED STATES, 1922-1938
TOTAL INCOME
DOLLARS (BILLIONS)
Current Dollars
1926 Dollars*
80
70
60
50
40
30
20
10
0
1922
1924
1926
1928
1930
1932
1934
1936
1938
PER CAPITA INCOME
INDEX NUMBERS (1929=100)
In Terms of Dollars
In Terms of Purchasing Power
110
100
90
80
70
60
50
40
30
20
10
0
SOURCE: ENTERPRISE AND SOCIAL PROGRESS, National Industrial Conference Board, New York, 1939, p 79
*In Terms of Constant Purchasing Power of 1926 Price Level
Rises and Declines Represent Changes in Physical Volume

The table traces the over-all changes in national well-being. However, certain qualifications, often overlooked in analyzing national income data, must be made. The table tells nothing about the actual distribution of income; it gives only a total figure on the amount of income produced and distributed. How it was made, and to whom dispensed, cannot be told from these figures. They reveal in only approximate fashion the income available for tax purposes. They do not actually show anything about the wealth and poverty of the various classes of the population, nor do they indicate a rise in living standards among the various elements in the population to correspond with an increase in national income. Much more detailed studies of income distribution are required for such purposes. Nevertheless, the figures are revealing.

The peak current dollar national income available to meet the living necessities, luxuries, and cultural desires of the people totaled $79,498,000,000 in 1929. That year showed the highest income in terms of price level dollars as well. The Nation's income, which grew rapidly during the prosperous era of the 1920's, dropped in 1933 to the lowest level, in terms of current dollars, reached in any year since 1916. The income was lower in terms of purchasing power than in any year since the depression year 1922. A comparison of the percentage of gain or loss in the 8 years preceding and following the 1929 peak follows:

Years	Current dollars	Price-level dollars
From 1922 to 1929	39.1	22.7
From 1929 to 1936	−17.9	−4.6

The national income in terms of current dollars declined almost 18 percent from 1929 to 1936; but in terms of purchasing power the decline was less than 5 percent. Those who possessed income available for expenditure in like or nearly like amounts as in 1929 were actually benefited by the changes in price levels. For a very substantial number of citizens, however, losses in money income kept them from maintaining their living standards, despite a favorable price level.

The production of income is based upon various factors, controllable and uncontrollable, and income figures reflect the sensitivity of the economy to them. The downward swing of the depression was arrested in 1934, and a rapid recovery began which by 1937 raised the national income almost $25,000,000,000 above the low point of 1933 and within $10,000,000,000 of the all-time high of 1929. At that time, certain changes in public policy and private enterprise caused a drop in national income recorded for 1938. The 1938 loss in income reduced the total somewhat below 1936, but it still remained above 1934 and 1935.

The trend of the national income can be seen for the years since 1922 in the index columns. In 1938, for example, the current dollar income was 21.4 percent below that of 1929; while in commodity dollars it was 8.7 percent below 1929. Conditions in 1937 were even better when compared with 1929, for current income was 12.7 percent less, and adjusted dollar income was 2.9 percent lower.

The conclusion that the people were only 2.9 percent poorer in 1937 than in 1929 is unwarranted, however, for the distribution of the total income is not represented in the figures, nor have any population data been related to national income figures.

In the last half of the table the data are arranged on a per capita basis. Here it appears that in 1937 the current dollar per capita income was 17.9 percent less than 1929; and on a price index basis it had fallen off 8.8 percent. Even these figures do not distribute the incomes among the population, however, and consequently cannot be taken as expenditure incomes.

In 1929 there was realized a current dollar per capita income of $654, and an adjusted per capita income of $625. Thus for every family of man, wife, and two children in 1929, the economy had reached a current income level of $2,616. By 1934 the national income of this hypothetical family of four persons had dropped to $1,628. The recovery of 1937 produced a family income of $2,148, reduced by the recession of 1938 to $1,920. Obviously, no such distribution of income or income-receiving units of population exists, but the figures do indicate something of the extent to which the national income can meet the living needs of the people, both in prosperity and depression.

INCOME OF THE STATES

In table 14, chart 11, the realized income of the Nation is distributed among the States which produce it. The table ranks the 48 States according to total income and percentage of total income, for the peak year 1929, and 1938, the last year for which figures are available. The increase or decrease for the period is also shown.

Like the Nation's wealth, the income produced and paid out is located in the States of large population, highly developed industries, and strong financial centers. The relative positions of the States did not alter greatly from 1929 to 1938; the top five States were the same in both years. Five States—Kansas, Oklahoma, North Carolina, North Dakota, and Idaho—changed in rank as much as five places; North Carolina and Idaho moved up, and the other three down.

The wide disparity in State incomes is shown below:

States	Percentage of total income	
	1929	1938
First 5 (New York, Pennsylvania, Illinois, California, Ohio)	46.1	48.6
Last 5 (Idaho, Vermont, New Mexico, Wyoming, Nevada)	1.1	1.1

Nor did all States fare alike in the years following 1929. North and South Carolina, Louisiana, New Mexico, and the District of Columbia realized more income in 1938 than in 1929. However, in each of these cases the gains were the result of relief and Government spending. This is shown by a comparison of total income (table 14), with private production income (table 15). In each instance a loss in private production incomes was registered for these States from 1929 to 1938.

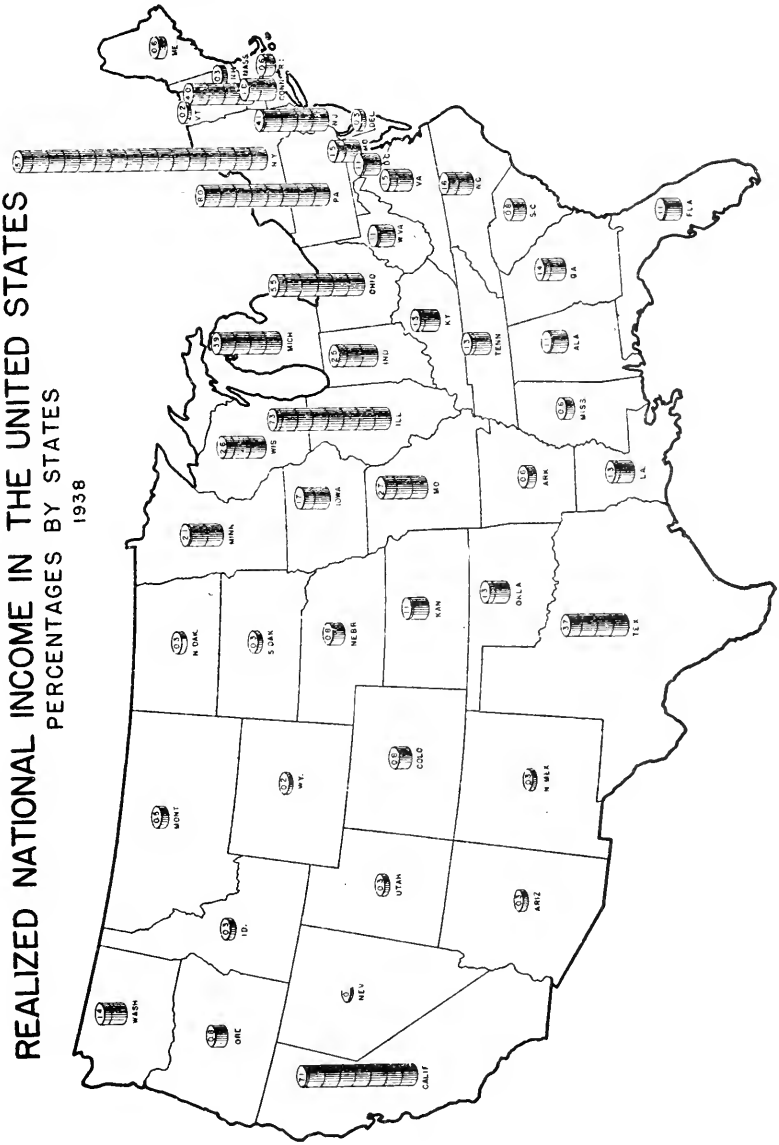
Despite Government spending some States sustained substantial losses in total income from 1929 to 1938. Twelve States, distributed throughout the Union, lost 25 percent or more of their income by 1938. North Dakota suffered most, with a loss of 43 percent in its total

CHART 11

REALIZED NATIONAL INCOME IN THE UNITED STATES

PERCENTAGES BY STATES

1938



SOURCE: ENTERPRISE AND SOCIAL PROGRESS, National Industrial Conference Board, New York, 1939, p. 116-17

realized income and 54.8 percent of realized private production income. As with most States, even these figures represent a considerable recovery from the trough of depression in 1933. In the case of North Dakota, for example, total income in 1933 was 58.2 percent less than in 1929, while total income from private production had fallen off 66.5 percent in 1934 (1933 figures not available).

TABLE 14.—*Realized national income by States, 1929 and 1938*

[Dollar figures in millions]

State	1929			1938			1938 over 1929	
	Rank	Amount	Percent of total	Rank	Amount	Percent of total	Amount	Percent change
New York	1	$13,474	16.9	1	$9,770	15.7	−$3,704	−27.5
Pennsylvania	2	7,026	8.8	2	5,007	8.0	−2,019	−28.7
Illinois	3	6,472	8.1	3	4,538	7.3	−1,934	−29.9
California	4	5,248	6.6	4	4,415	7.1	−833	−15.9
Ohio	5	4,579	5.7	5	3,464	5.5	−1,115	−24.4
Michigan	6	3,540	4.4	8	2,454	3.9	−1,086	−30.7
Massachusetts	7	3,413	4.3	7	2,530	4.0	−883	−25.9
New Jersey	8	3,200	4.0	6	2,570	4.1	−630	−19.7
Texas	9	2,657	3.3	9	2,328	3.7	−329	−12.4
Missouri	10	2,114	2.7	10	1,679	2.7	−435	−20.6
Wisconsin	11	1,881	2.4	11	1,586	2.6	−295	−15.7
Indiana	12	1,825	2.3	12	1,539	2.5	−286	−15.7
Connecticut	13	1,424	1.8	14	1,126	1.8	−298	−20.9
Minnesota	14	1,420	1.8	13	1,314	2.1	−106	−7.5
Iowa	15	1,233	1.5	15	1,042	1.7	−191	−15.5
Washington	16	1,102	1.4	19	892	1.4	−210	−19.1
Maryland	17	1,100	1.4	18	920	1.5	−180	−16.4
Oklahoma	18	1,034	1.3	23	777	1.3	−257	−24.9
Kansas	19	1,004	1.3	25	741	1.1	−263	−26.2
Virginia	20	973	1.2	17	928	1.5	−45	−4.6
North Carolina	21	960	1.2	16	982	1.6	22	2.3
Georgia	22	955	1.2	20	852	1.4	−103	−10.8
Kentucky	23	949	1.2	22	820	1.3	−129	−13.6
Tennessee	24	912	1.1	24	774	1.3	−138	−15.1
Louisiana	25	809	1.0	21	822	1.3	13	1.6
Alabama	26	799	1.0	29	640	1.1	−159	−19.9
West Virginia	27	777	1.0	27	674	1.1	−103	−13.3
Nebraska	28	754	.9	32	517	.8	−237	−31.4
Florida	29	732	.9	26	716	1.1	−16	−2.2
Colorado	30	643	.8	30	524	.8	−119	−18.5
Oregon	31	609	.8	31	523	.8	−86	−14.1
District of Columbia	32	568	.7	28	673	1.1	105	18.5
Arkansas	33	547	.7	34	439	.6	−108	−19.7
Mississippi	34	536	.7	35	410	.6	−126	−23.5
Rhode Island	35	528	.7	36	403	.6	−125	−23.7
Maine	36	468	.6	37	366	.6	−102	−21.8
South Carolina	37	458	.6	33	481	.8	23	5.0
Montana	38	346	.4	38	273	.5	−73	−21.1
North Dakota	39	328	.4	44	187	.3	−141	−43.0
South Dakota	40	311	.4	43	198	.3	−113	−36.3
Utah	41	277	.3	39	218	.3	−59	−21.3
New Hampshire	42	276	.3	41	216	.3	−60	−21.7
Arizona	43	266	.3	42	206	.3	−60	−22.6
Delaware	44	244	.3	46	169	.3	−75	−30.7
Idaho	45	244	.3	40	217	.3	−27	−11.1
Vermont	46	208	.3	47	146	.2	−62	−29.8
New Mexico	47	172	.2	45	176	.3	4	2.3
Wyoming	48	156	.2	48	133	.2	−23	−14.7
Nevada	49	80	.1	49	75	.1	−5	−6.3
Total	------	79,631	100.0	------	62,450	100.0	−17,181	−21.6

Source: National Industrial Conference Board, Enterprise and Social Progress, 1939, pp. 116–117.

Table 15, chart 12, shows income from private production. The same general ranking of States is seen as in the previous table, with a few exceptions. The national loss in private production income from 1929 to 1938 was 30.9 percent. In 22 States the losses were greater than this figure. Although 1929 was not the peak year in privately produced income for all States, nevertheless no single State by 1938 had regained that comparatively high level.

TABLE 15.—*Realized private production income, by States, 1929 and 1938*

[Dollar figures in millions]

State	1929			1938			1938 over 1929	
	Rank	Amount	Percent of total	Rank	Amount	Percent of total	Amount	Percent increase
New York	1	$11,311	16.4	1	$7,215	15.2	−$4,096	−36.2
Pennsylvania	2	6,137	8.9	2	3,845	8.1	−2,292	−37.3
Illinois	3	5,576	8.1	3	3,500	7.4	−2,076	−37.2
California	4	4,496	6.5	4	3,469	7.3	−1,027	−22.8
Ohio	5	4,091	5.9	5	2,733	5.7	−1,358	−33.2
Michigan	6	3,037	4.4	7	1,951	4.1	−1,086	−35.8
Massachusetts	7	2,963	4.3	8	1,873	3.9	−1,099	−36.8
New Jersey	8	2,767	4.0	6	1,992	4.2	−775	−28.0
Texas	9	2,336	3.4	9	1,807	3.8	−529	−22.6
Missouri	10	1,844	2.7	10	1,294	2.7	−550	−29.8
Wisconsin	11	1,644	2.4	11	1,255	2.6	−389	−23.7
Indiana	12	1,628	2.4	12	1,200	2.5	−428	−26.3
Connecticut	13	1,271	1.8	14	894	1.9	−377	−29.7
Minnesota	14	1,238	1.8	13	989	2.1	−249	−20.1
Iowa	15	1,062	1.5	16	786	1.7	−276	−26.0
Washington	16	975	1.4	19	681	1.4	−294	−30.2
Maryland	17	934	1.4	17	720	1.5	−214	−22.9
Oklahoma	18	905	1.3	25	557	1.2	−348	−38.5
Kansas	19	884	1.3	24	566	1.2	−318	−36.0
North Carolina	20	846	1.2	15	807	1.7	−39	−4.6
Virginia	21	835	1.2	18	719	1.5	−116	−13.9
Kentucky	22	835	1.2	21	637	1.3	−198	−23.7
Georgia	23	834	1.2	20	660	1.4	−174	−20.9
Tennessee	24	798	1.2	23	607	1.3	−191	−23.9
Louisiana	25	713	1.0	22	628	1.3	−85	−11.9
Alabama	26	701	1.0	28	486	1.0	−215	−30.7
West Virginia	27	695	1.0	27	499	1.0	−196	−28.2
Nebraska	28	667	1.0	30	386	.8	−281	−42.1
Florida	29	634	.9	26	553	1.2	−81	−12.8
Colorado	30	558	.8	31	375	.8	−183	−32.8
Oregon	31	540	.8	29	417	.9	−123	−22.8
Arkansas	32	479	.7	34	312	.7	−167	−34.9
Mississippi	33	469	.7	36	292	.6	−177	−37.7
Rhode Island	34	461	.7	35	298	.6	−163	−35.4
Maine	35	408	.6	37	285	.6	−123	−30.1
South Carolina	36	392	.6	32	354	.7	−38	−9.7
District of Columbia	37	359	.5	33	328	.7	−31	−8.6
Montana	38	307	.4	38	201	.4	−106	−34.5
North Dakota	39	284	.4	45	122	.3	−162	−57.0
South Dakota	40	270	.4	46	122	.3	−148	−54.8
Utah	41	246	.4	40	163	.3	−83	−33.7
New Hampshire	42	244	.4	39	168	.3	−76	−31.1
Arizona	43	229	.3	42	150	.3	−79	−34.5
Idaho	44	218	.3	41	159	.3	−59	−27.1
Delaware	45	217	.3	43	137	.3	−80	−36.9
Vermont	46	180	.3	47	109	.2	−71	−39.4
New Mexico	47	151	.2	44	132	.3	−19	−12.6
Wyoming	48	132	.2	48	98	.2	−34	−25.8
Nevada	49	71	.1	49	58	.1	−13	−18.3
Total		68,872	100.0		47,589	100.0	−21,283	−30.9

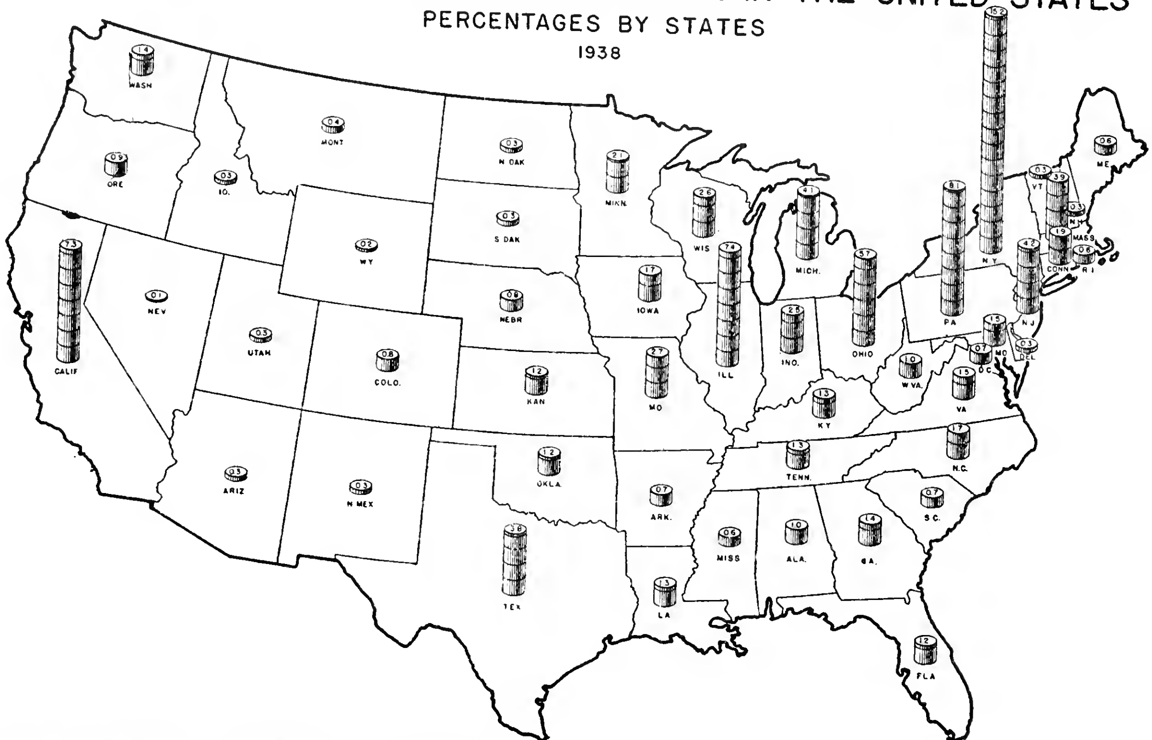
Source: Adapted from National Industrial Conference Board, Enterprise and Social Progress, New York, 1939, p. 119.

CHART 12

REALIZED PRIVATE PRODUCTION INCOME IN THE UNITED STATES

PERCENTAGES BY STATES

1938



SOURCE: Adapted from ENTERPRISE AND SOCIAL PROGRESS, National Industrial Conference Board, 1939, p 119

LEVELS OF INCOME

Income data thus far offered are aggregate figures, which do not reveal the income distributed among the various classes of income receivers. In table 16, the income levels of the population are arranged according to families and single persons living independently. These figures, which represent the first comprehensive study of actual incomes, were compiled for 1935–36 by the National Resources Committee.[6] The total of 39,458,300 consumer units is divided as follows:

Units	Number	Percentage
Families of 2 or more	29, 400, 300	74. 5
Single individuals	10, 058, 000	24. 5

Over 90 percent of the population is included within family units, and the other 10 percent is composed of single individuals living independently.

TABLE 16.—*Distribution of families and single individuals and of aggregate income received, by income level, 1935–36*

Income level	Families and single individuals			Aggregate income		
	Number	Percent at each level	Cumulative percent	Amount (in thousands)	Percent at each level	Cumulative percent
Under $250	2, 123, 534	5. 38	5. 38	$294, 138	0. 50	0 50
$250 to $500	4, 587, 377	11. 63	17. 01	1, 767, 363	2. 98	3. 48
$500 to $750	5, 771, 960	14. 63	31. 64	3, 615, 653	6. 10	9. 58
$750 to $1,000	5, 876, 078	14. 90	46. 54	5, 129, 506	8. 65	18. 23
$1,000 to $1,250	4, 990, 995	12. 65	59. 19	5, 589, 111	9. 42	27. 65
$1,250 to $1,500	3, 743, 428	9. 49	68. 68	5, 109, 112	8. 62	36. 27
$1,500 to $1,750	2, 889, 904	7. 32	76. 00	4, 660, 793	7. 87	44. 14
$1,750 to $2,000	2, 296, 022	5. 82	81. 82	4, 214, 203	7. 11	51. 25
$2,000 to $2,250	1, 704, 535	4. 32	86. 14	3, 602, 861	6. 08	57. 33
$2,250 to $2,500	1, 254, 076	3. 18	89. 32	2, 968, 932	5. 01	62. 34
$2,500 to $3,000	1, 475, 474	3. 74	93. 06	4, 004, 774	6. 76	69. 10
$3,000 to $3,500	851, 919	2. 16	95. 22	2, 735, 487	4. 62	73. 72
$3,500 to $4,000	502, 159	1. 27	96. 49	1, 863, 384	3. 14	76. 86
$4,000 to $4,500	286, 053	. 72	97. 21	1, 202, 826	2. 03	78. 89
$4,500 to $5,000	178, 138	. 45	97. 66	841, 766	1. 42	80. 31
$5,000 to $7,500	380, 266	. 96	98. 62	2, 244, 406	3. 79	84. 10
$7,500 to $10,000	215, 642	. 55	99. 17	1, 847, 820	3. 12	87. 22
$10,000 to $15,000	152, 682	. 39	99. 56	1, 746, 925	2. 95	90. 17
$15,000 to $20,000	67, 923	. 17	99. 73	1, 174, 574	1. 98	92. 15
$20,000 to $25,000	39, 825	. 10	99. 83	889, 114	1. 50	93. 65
$25,000 to $30,000	25, 583	. 06	99. 89	720, 268	1. 22	94. 87
$30,000 to $40,000	17, 959	. 05	99. 94	641, 272	1. 08	95. 95
$40,000 to $50,000	8, 340	. 02	99. 96	390, 311	. 66	96. 61
$50,000 to $100,000	13, 041	. 03	99. 99	908, 485	1. 53	98. 14
$100,000 to $250,000	4, 144	. 01	100. 00	539, 006	. 91	99. 05
$250,000 to $500,000	916	(1)		264, 498	. 45	99. 50
$500,000 to $1,000,000	240	(1)		134, 803	. 23	99. 73
$1,000,000 and over	87	(1)		157, 237	. 27	100. 00
All levels	39, 458, 300	100. 00		59, 258, 628	100. 00	

1 Less than 0.005 percent.

Source: National Resources Committee, Consumer Incomes in the United States, Washington, 1938, p. 6.

The table shows that 2,132,534 consumer units, comprising 5.4 percent of all families and single individuals, received 0.5 percent of all income, in allotments of less than $250 for the year 1935–36. At the

6 National Resources Committee, Consumer Incomes in the United States, 1935–36, Washington, D. C., 1938.

other extreme of the scale are 19,428 consumer units which each had from $50,000 to more than $1,000,000 at its disposal. They comprised 0.4 percent of all consumer units, and obtained 3.39 percent of all income.

Sixty percent of all consumer units had less than $1,250 at their disposal, and received less than 28 percent of all income. Ninety percent had less than $2,500 annual income, and received 62 percent of all income. Less than 3 percent of all consumer units had incomes available for use of $5,000 or more. They received not only exceptionally high incomes, but also a large proportion, 20 percent, of total income.

INCOME LEVELS BY GEOGRAPHIC REGIONS

In table 17, chart 13, the average incomes of families are given for different geographic regions of the United States. Table 17 shows both mean and median incomes for all families and nonrelief families. Regional differences appear, notably between the South and other sections of the country. Leaving out the South, the Mountain and Plains region ranked lowest in both mean and median incomes of nonrelief families. For median incomes of nonrelief families, the Pacific region was $265 above the Mountain and Plains region. For mean income, the New England region was $474 more than the Mountain and Plains region. The Pacific region enjoyed the largest median income for all families and for nonrelief families. In terms of mean incomes, first place was taken by the New England region.

TABLE 17.—*Average incomes of families in 5 geographic regions, based on sample data, 1935–36*

Geographic region	Average income per family			
	Median		Mean	
	All families	Nonrelief families [1]	All families	Nonrelief families [1]
New England	$1,230	$1,365	$1,810	$2,011
North Central	1,260	1,410	1,786	1,973
South	905	985	1,326	1,431
Mountain and Plains	1,040	1,220	1,363	1,537
Pacific	1,335	1,485	1,775	1,937

[1] The nonrelief group excludes all families receiving any direct or work relief (however little) at any time during the year.

Source: National Resources Committee. Consumer Incomes in the United States, Washington, 1938, p. 22.

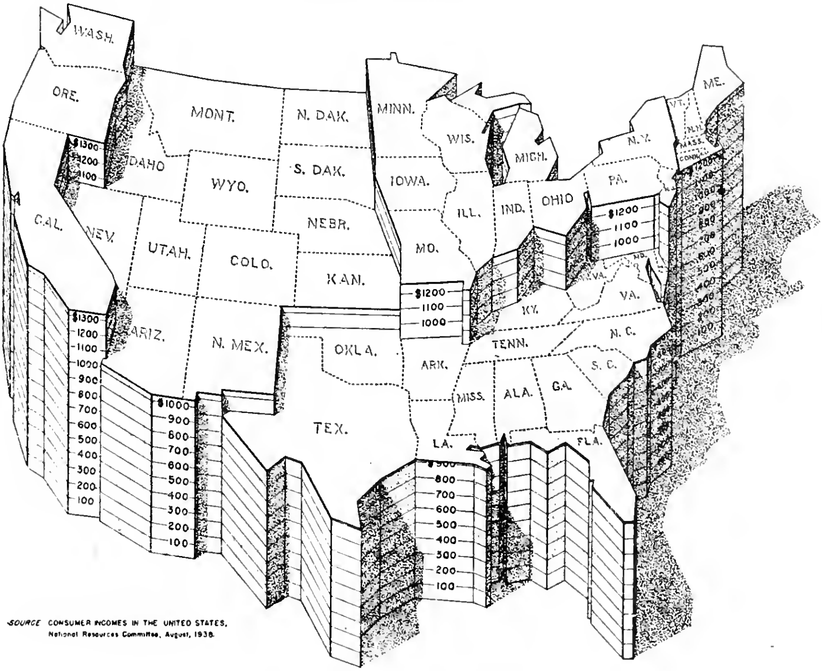
INCOMES RECEIVED BY DIFFERENT TYPES OF COMMUNITIES

Table 18 gives figures for different types of communities, ranging from metropolitan to farm areas. The data cover only nonrelief families. The extremes are pronounced. Dwellers in cities of 1,500,000 population and over are 11.3 percent of all families, but receive 17.1 percent of all income, in average amounts of $2,704. Families living on farms are 24.8 percent of all families, have more members than any other group, and receive 17.5 percent of all income in average amounts of $1,259. These figures are averages only, and conceal a spread of incomes in which a substantial number of families, living in all types of communities, receive incomes decidedly below the average, and a very few families receive an unusual proportion of all

CHART 13

AVERAGE INCOMES OF FAMILIES IN FIVE GEOGRAPHIC REGIONS

UNITED STATES, 1935-1936



income in amounts in excess of $10,000 annually. Chart 14 displays the income patterns of nonrelief families by occupational groups.

TABLE 18.—*Average and aggregate incomes of nonrelief families [1] in 6 types of community, 1935–36*

Type of community	Families		Average number of persons per family	Average income per family		Aggregate income	
	Number	Per-cent		Median	Mean	Amount (in thousands)	Per-cent
Metropolises: 1,500,000 population and over [2]	2,806,900	11.3	3.5	$1,730	$2,704	$7,591,014	17.1
Large cities: 100,000 to 1,500,000 population	4,666,700	18.7	3.5	1,560	2,177	10,161,241	22.9
Middle-sized cities: 25,000 to 100,000 population	2,607,600	10.4	3.7	1,360	1,813	4,728,161	10.7
Small cities: 2,500 to 25,000 population	4,079,700	16.4	3.7	1,290	1,653	6,744,813	15.2
All urban communities	14,160,900	56.8	3.6	1,475	2,064	29,225,229	65.9
Rural nonfarm communities [3]	4,585,700	18.4	3.7	1,210	1,607	7,371,101	16.6
Farms	6,166,600	24.8	4.5	965	1,259	7,763,570	17.5
All rural communities	10,752,300	43.2	4.2	1,070	1,408	15,134,761	34.1
All communities	24,913,200	100.0	3.8	1,285	1,781	44,359,900	100.0

[1] Excludes all families receiving any direct or work relief (however little) at any time during year.

[2] Metropolises of this size are in North Central Region only (New York, Chicago, Philadelphia, and Detroit).

[3] Includes families living in communities with population under 2,500 and families living in the open country but not on farms.

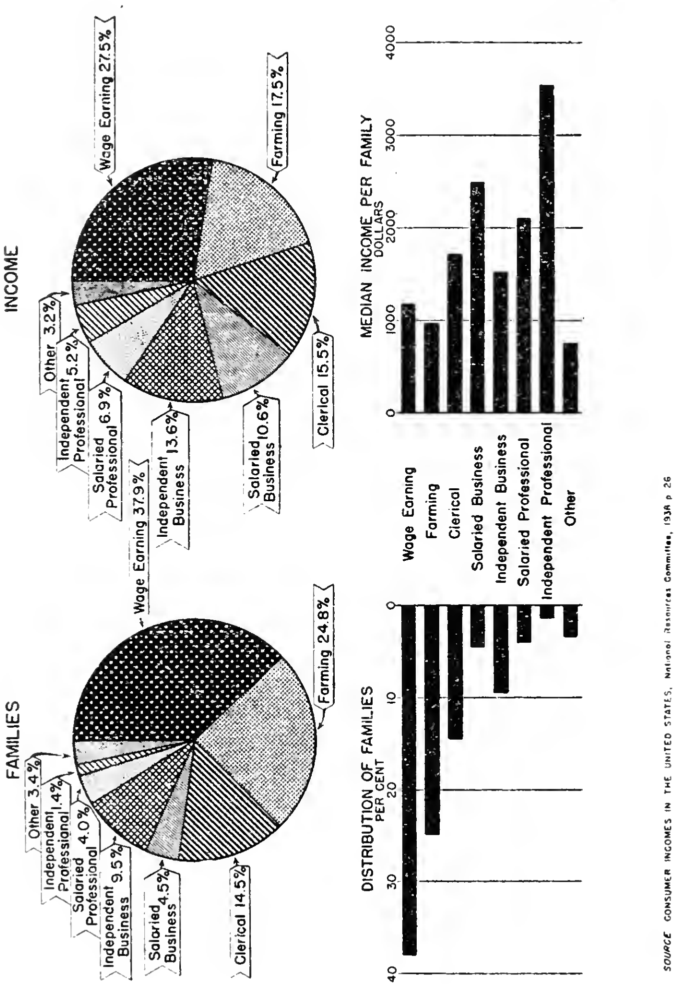
Source: National Resources Committee, Consumer Incomes in the United States, Washington, 1938, p. 23.

CHART 14

ANNUAL INCOMES OF NON-RELIEF FAMILIES

BY OCCUPATIONAL GROUPS

UNITED STATES, 1935-36



SOURCE CONSUMER INCOMES IN THE UNITED STATES, National Resources Committee, 1938 p 26

CONSUMPTION

The National Resources Committee has released data on the consumption patterns of families and individuals living alone, based on the same investigation as the income study just described.[7] This is the first information obtained from a Nation-wide sample of consumer units, and gives material concerning their actual disbursements. These unique data are of primary value in an analysis of taxation, for they not only reveal the ability of the several income groups to pay taxes but also indicate their use of the funds available to them.

Table 19, chart 15, displays consumer outlays for consumption needs, gifts and certain taxes, and savings. Dis-savings occur in the groups with incomes below $1,250. This means that their expenditures draw upon other assets or create debt.

TABLE 19.—*Aggregate outlay of American consumers* [1] *for consumption, gifts and personal taxes, and savings by income level, 1935–36*

[Dollar figures in millions]

Income level	Families and single individuals		Aggregate income		Aggregate outlay for—					
					Current consumption		Gifts and personal taxes [2]		Savings	
	Number	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Under $500	6,710,911	17.0	$2,061	3.5	$2,817	5.6	$44	1.4	−$800	−13.4
$500 to $750	5,771,960	14.6	3,615	6.1	3,888	7.8	109	3.6	−382	−6.4
$750 to $1,000	5,876,078	14.9	5,130	8.6	5,209	10.4	175	5.7	−254	−4.3
$1,000 to $1,250	4,990,995	12.7	5,589	9.4	5,487	10.9	199	6.5	−97	−1.6
$1,250 to $1,500	3,743,428	9.5	5,109	8.6	4,807	9.6	207	6.7	95	1.6
$1,500 to $1,750	2,889,904	7.3	4,661	7.9	4,278	8.5	187	6.1	196	3.3
$1,750 to $2,000	2,296,022	5.8	4,214	7.1	3,794	7.6	175	5.7	245	4.1
$2,000 to $2,500	2,958,611	7.5	6,572	11.1	5,695	11.3	290	9.4	587	9.8
$2,500 to $3,000	1,475,474	3.7	4,005	6.8	3,348	6.7	175	5.7	482	8.1
$3,000 to $4,000	1,354,078	3.4	4,599	7.8	3,631	7.2	226	7.4	742	12.4
$4,000 to $5,000	464,191	1.2	2,045	3.4	1,494	3.0	117	3.8	434	7.2
$5,000 to $10,000	595,908	1.5	4,092	6.9	2,604	5.2	270	8.8	1,218	20.4
$10,000 to $15,000	152,682	.4	1,747	3.0	925	1.8	143	4.7	679	11.4
$15,000 to $20,000	67,923	.2	1,175	2.0	607	1.2	95	3.1	473	7.9
$20,000 and over	110,135	.3	4,645	7.8	1,630	3.2	655	21.4	2,360	39.5
All levels	39,458,300	100.0	59,259	100.0	50,214	100.0	3,067	100.0	5,978	100.0

[1] Includes all families and single individuals, but excludes residents in institutional groups.
[2] Includes only personal income taxes, poll taxes, and certain personal-property taxes.

Source: National Resources Committee, Consumer Expenditures in the United States, Washington 1939, p. 48.

Families and individuals living alone with incomes below $500 were 17 percent of all consumer units. So little of the aggregate income, 3.5 percent, is at their disposal, that their proportion of total consumption expenditures is less than 6 percent, and of gifts and personal

[7] National Resources Committee, Consumer Expenditures in the United States, Estimates for 1935–36, Washington, 1939.

taxes 1.4 percent. Even to achieve this level of expenditure they must use up reserves or go into debt for almost 28 percent of the sum spent. This segment of the population reports an excess of expenditures over income of $800,000,000, or 52.2 percent of all dis-savings reported. The annual expenditures of families in this population group averaged $474, and of single persons living alone, $347.

The population with incomes below $1,000 a year are 46 percent of all consumer units, yet they account for only 23.8 percent of all expenditures for consumption. Those with incomes above $3,000 account for approximately the same amount of consumption expenditures, namely, 21.6 percent, yet they are only 7 percent of all consumer units. The disparity in these figures disproves the general belief that consumption expenditures are relatively inelastic. For the population with incomes above $10,000 a year, however, consumption expenditures do tend to reach a maximum, at which point the income is channeled off into other uses, notably savings.

The columns of table 19 devoted to outlays for gifts and taxes cover only certain direct taxes, such as personal-income taxes, poll taxes, and some personal-property taxes, for which information was available. Some taxes were included in the consumption expenditures of the various units. Since these visible and direct taxes fall primarily on single persons with incomes above $1,000 and families with incomes of $2,500 or more ($800 and $2,000, respectively, as of July 1, 1940), the data understate the tax burden of the lower-income groups, who bear a substantial proportion of sales and excise levies, and who also pay real-property taxes in the form of rent. Not only are the consumption purchases of lower-income groups meager, but their tax payments are often relatively heavy.

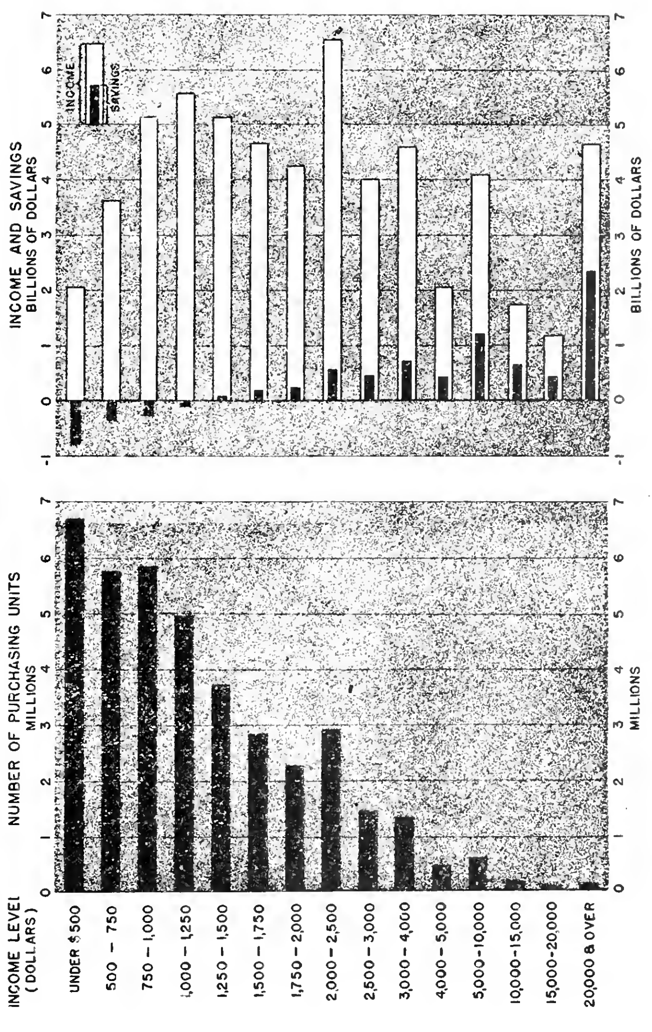
With these limitations of the data in mind, it appears that 46 percent of the people, with incomes below $1,000, bear 10.7 percent of all gifts and certain personal taxes, while the 7 percent with incomes above $3,000 bear 49.2 percent of all gifts and personal taxes. Viewed in another way, however, it appears that the population with incomes below $1,000 obtained 18.2 percent of all income, expended 3 percent of their income on gifts and certain specified personal taxes. The population with incomes above $3,000 had 30.9 percent of all income, 8 percent of which was spent in gifts and personal taxes, leaving them with 92 percent for consumption purposes and savings.

The final two columns of table 19 show the savings of consumer units. It has already been noted that 50 percent of all consumer units, those with incomes less than $1,250 a year, not only had no savings, but required other income to meet their current needs. Total net savings in the year 1935–36, which was not a prosperous year and only 2 years removed from the trough of the depression, were $5,978,000,000. Who made these savings? Those with incomes of $20,000 or more, comprising 0.3 percent of all consumer units, accounted for 39.5 percent of all savings. In fact, after spending an average of $14,800 on current living, and paying income taxes which many wealthy people regard as confiscatory, these people actually saved 50.8 percent of their income.

The figures on savings do not support the traditional belief that poor people live frugally, and may put by enough from their incomes to lift them out of their humble circumstances. In reality, to eke out an existence they must use up all their income, and even this proves insufficient. Furthermore, that large population, 22.6 percent of all

CHART 15

INCOMES AND SAVINGS OF FAMILIES AND SINGLE INDIVIDUALS
BY INCOME LEVELS
UNITED STATES 1935-36



SOURCE: National Resources Committee, CONSUMER EXPENDITURES IN THE UNITED STATES, Washington, 1939, p 48

consumer units, with incomes of $1,250 to $2,000, accounts for only 9 percent of all savings made.

The population with incomes between $2,000 and $5,000 are 15.8 percent of all consumer units. They are, relatively speaking, in comfortable circumstances, where funds above the necessities of life are available. They can be expected to save, and in fact account for 37.5 percent of all money saved.

But the people with incomes over $5,000 are the large savers. They are only 2.4 percent of all consumer units, yet they account for 79.2 percent of all savings. As in table 19, these figures take into account the negative savings made by the income groups below $1,250.

To summarize, there were 39,458,300 consumer units in the Nation in 1935–36; they received $59,259,000,000; they used 84.7 percent of their incomes for current consumption, 5.2 percent for gifts and certain personal taxes, and saved 10.1 percent.

EXPENDITURES OF FAMILIES AND SINGLE INDIVIDUALS

In tables 20 and 21, charts 16 and 17, the average outlays of families and single persons living independently are displayed. All columns of both tables will aid in understanding the existing economic system, but the percentage distribution of expenditures is especially important.

The trends of expenditure patterns are similar, though not identical, for families and single persons. Not only are incomes small for a very large proportion of the population, but most of these relatively small incomes go for current consumption needs. As income mounts, the sum used for the necessities and luxuries of life increases, but the proportion devoted to such purposes declines, making available larger amounts for other uses, principally savings.

TABLE 20.—*Average outlay of single individuals for consumption, gifts and personal taxes, and savings, by income level, 1935–36*

Income level	Single individuals		Average income per individual	Average outlay per individual for—			Percentage of income for—		
	Number	Percent		Current consumption	Gifts and personal taxes [1]	Savings	Current consumption	Gifts and personal taxes [1]	Savings
Under $500	2,532,627	25.2	$300	$345	$4	−$49	115.0	1.3	−16.3
$500 to $750	1,972,745	19.6	623	608	32	−17	97.6	5.1	−2.7
$750 to $1,000	1,599,030	15.9	873	815	62	−4	93.4	7.1	−.5
$1,000 to $1,250	1,108,551	11.0	1,119	1,004	93	22	89.7	8.3	2.0
$1,250 to $1,500	877,956	8.7	1,368	1,180	124	64	86.2	9.1	4.7
$1,500 to $1,750	546,546	5.4	1,617	1,344	156	117	83.1	9.7	7.2
$1,750 to $2,000	398,985	4.0	1,868	1,501	187	180	80.4	10.0	9.6
$2,000 to $2,500	493,751	4.9	2,225	1,714	232	279	77.1	10.4	12.5
$2,500 to $3,000	161,275	1.6	2,703	1,990	291	422	73.6	10.8	15.6
$3,000 to $4,000	172,091	1.7	3,411	2,354	380	677	69.0	11.1	19.9
$4,000 to $5,000	61,596	.6	4,491	2,842	523	1,126	63.3	11.6	25.1
$5,000 to $10,000	85,898	.9	6,827	3,863	823	2,141	56.6	12.0	31.4
$10,000 to $15,000	20,861	.2	11,999	5,829	1,517	4,653	48.6	12.6	38.8
$15,000 to $20,000	9,436	.1	17,052	7,719	2,148	7,185	45.3	12.6	42.1
$20,000 and over	16,652	.2	43,884	14,671	6,642	22,571	33.5	15.1	51.4
All levels	10,058,000	100.0	1,151	932	103	116	81.0	8.9	10.1

[1] Taxes include only personal income taxes, poll taxes, and certain personal-property taxes.

Source: National Resources Committee, Consumer Expenditures in the United States, Washington, 1939, p. 32.

TABLE 21.—*Average outlay of American families for consumption, gifts and personal taxes, and savings, by income level, 1935–36*

Income level	Families		Average income per family	Average outlay per family for—			Percentage of income for—		
	Number	Percent		Current consumption	Gifts and personal taxes[1]	Savings	Current consumption	Gifts and personal taxes[1]	Savings
Under $500	4,178,284	14.2	$312	$466	$8	−$162	149.3	2.6	−51.9
$500 to $750	3,799,215	12.9	627	707	12	−92	112.7	1.9	−14.6
$750 to $1,000	4,277,048	14.6	874	914	18	−58	104.6	2.0	−6.6
$1,000 to $1,250	3,882,444	13.2	1,120	1,127	24	−31	100.6	2.2	−2.8
$1,250 to $1,500	2,865,472	9.8	1,364	1,316	34	14	96.5	2.5	1.0
$1,500 to $1,750	2,343,358	8.0	1,612	1,512	44	56	93.8	2.7	3.5
$1,750 to $2,000	1,897,037	6.4	1,829	1,684	53	92	92.1	2.9	5.0
$2,000 to $2,500	2,464,860	8.4	2,221	1,968	71	182	88.6	3.2	8.2
$2,500 to $3,000	1,314,199	4.5	2,715	2,302	98	315	84.8	3.6	11.6
$3,000 to $4,000	1,181,987	4.0	3,394	2,729	136	529	80.4	4.0	15.6
$4,000 to $5,000	402,595	1.4	4,391	3,276	211	904	74.6	4.8	20.6
$5,000 to $10,000	510,010	1.7	6,874	4,454	392	2,028	64.8	5.7	29.5
$10,000 to $15,000	131,821	.4	11,353	6,097	840	4,416	53.7	7.4	38.9
$15,000 to $20,000	58,487	.2	17,331	9,134	1,282	6,915	52.7	7.4	39.9
$20,000 and over	93,483	.3	41,871	14,822	5,820	21,229	35.4	13.9	50.7
All levels	29,400,300	100.0	1,622	1,389	69	164	85.6	4.3	10.1

[1] Taxes include only personal income taxes, poll taxes, and certain personal property taxes.

Source: National Resources Committee, Consumer Expenditures in the United States, Washington 1939, p. 20.

In 1935–36 the average family spent $1,622, of which $1,389, or 85.6 percent, went into current consumption, $69, or 4.3 percent, went for gifts and certain taxes, and $164, or 10.1 percent, went into savings. The average conceals the range, however. In 1935–36 there were 327 consumer units with incomes of $500,000 or more; there were 2,123,432 with incomes of less than $250, and the total incomes of the two groups were just equal. The average income received by the group with $500 or less was $312; that of the class having $20,000 or more was $41,871, permitting the latter a standard of living 135 times better than the former.

Proportionately more single individuals (60.7 percent) than families (41.7 percent) are found in the lowest brackets with incomes less than $1,000. Nevertheless, 132,847 persons living independently in 1935–36 had incomes of $5,000 or more, 16,652 of whom enjoyed incomes of $20,000 or more.

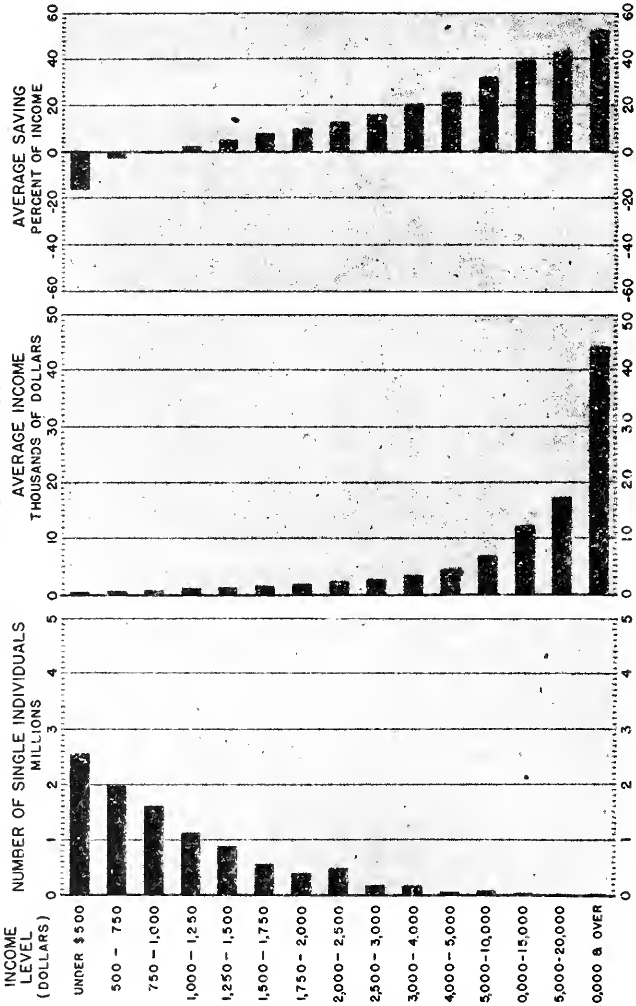
The average single person had an income of $1,151, of which $932, or 81 percent, was spent in current consumption, $103, or 8.9 percent went into gifts and personal taxes, and $116, or 10.1 percent, was saved. Whereas families with less than $1,250 incomes experienced dissavings, single persons began to save on incomes of $1,000. Also, single persons of large incomes saved relatively large amounts of their incomes. Thus, single persons with incomes between $3,000 and $4,000 saved 20 percent, while families with such incomes saved 15 percent. In the upper-income brackets, the single persons and families draw closer together, and in the bracket of $20,000 and over they are practically identical.

CHART 16

INCOME AND SAVINGS OF SINGLE INDIVIDUALS

BY INCOME LEVELS

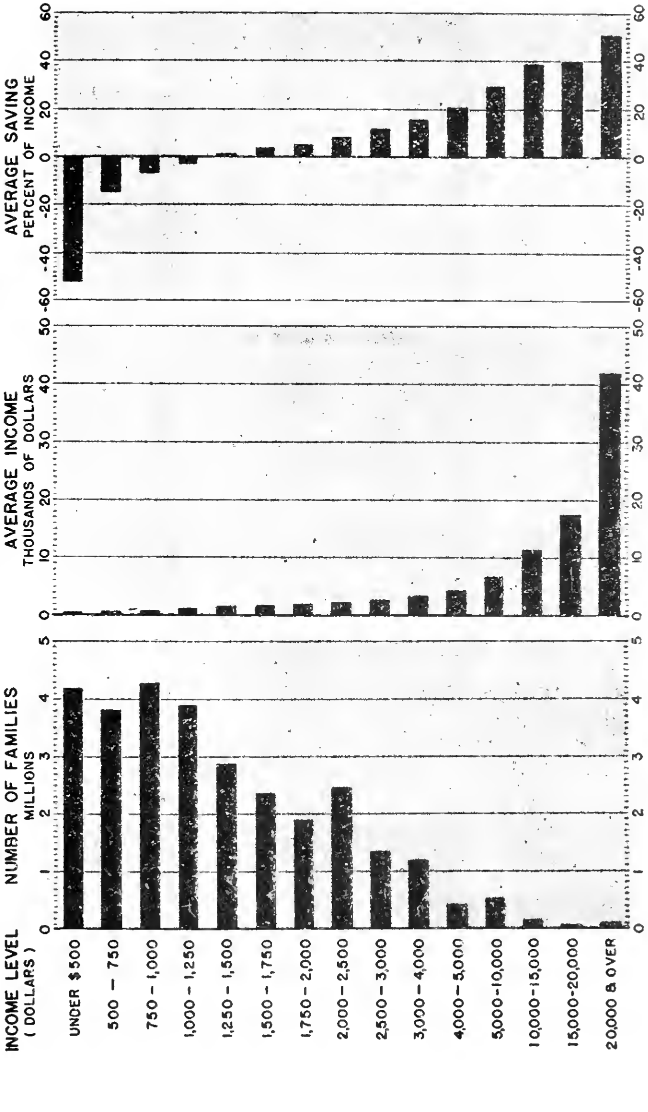
UNITED STATES 1935-36



SOURCE CONSUMER EXPENDITURES IN THE UNITED STATES (Estimates for 1935-36), National Resources Committee, p.32

CHART 17

INCOMES AND SAVINGS OF AMERICAN FAMILIES
BY INCOME LEVELS
1935-36



SOURCE CONSUMER EXPENDITURES IN THE UNITED STATES (Estimates for 1935-36), National Resources Committee, p 20

WHO OWNS THE UNITED STATES

Various efforts to determine who actually owns the United States and reaps the major benefits of such ownership have been made by individual students, and can be summarized as follows:

> The top 2.7 percent of all families, 800,000 of them, get incomes of $5,000 or more. In 1935–36 they received 20.9 percent of all income.[8]
>
> The upper 10 percent of families accounted for more than 85 percent of all savings.[9]
>
> In May 1936, 400,000 families owned 72 percent of the demand deposits of the country.[10]
>
> Families with incomes of $5,000 or more received 10.1 percent of all compensations paid employees in 1929.[11]
>
> They collected 19 percent of all rents.[12]
>
> They obtained 24.7 percent of all entrepreneurial incomes.[12]
>
> They received 40.7 percent of all interest paid.[12]
>
> They get 48.1 percent of all property income.[12]
>
> They receive 71.2 percent of all dividends.[12]
>
> Part of their number receive the major benefits of insurance investments. Less than 13 percent of the matured policies received 85 percent of the money distributed by life-insurance companies in payment of claims.[13]

The employed members of these families are financiers, industrial and business managers, business owners, high grade agents and salesmen, and professional persons. The unemployed heads of such families are living on inheritances and investments.

Less than 3 percent of the families of the Nation have such a large proportion of both wealth and income as to dominate American economic life. In the business community they are in control, despite the relatively large number of small proprietors who try to succeed as owner-operators. In manufacturing and distributive industry they are in an even more dominant position; and in finance their control is complete. Even in agriculture the concentration has reached a stage where farms of 1,000 or more acres, while only 1.3 percent of all farms comprise 29.4 percent of all farm land; farms of 500–1,000 acres add another 11 percent to the total acreage in large farms.

It is true that the ranks of wealthy families are invaded by newcomers from time to time, yet within these few families, out of all proportion to their numbers, is a further concentration due to hereditary fortunes which have been added to and passed on from generation to generation. A considerable part of the wealth of the Nation is now lodged in a few families which so skillfully handle their income and inheritance taxation that they continue to assume an ever larger place as "owners" in each successive generation.[14]

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[8] National Resources Committee, Consumer Incomes in the United States, 1935–36, Washington, p. 18.
[9] Brookings Institution, America's Capacity to Consume, Washington, p. 94.
[10] Theodore J. Kreps, Welfare Levels in American Life, ch. 7 in Social Education, Stanford Education Conference, MacMillan, New York, 1939, p. 135.
[11] Ibid., p. 136.
[12] Albert G. Hart, How the National Income is Divided, University of Chicago, 1937, p. 22.
[13] Kreps, op. cit., p. 136.
[14] Gustavus Meyers, The Ending of Hereditary American Fortunes, Julian Messner, New York, 1939.

THE ORGANIZATION OF ECONOMIC ACTIVITIES

The production of the goods and services required for modern living is organized into various sizes and kinds of cooperative endeavors, motivated by the desire for a return above costs, which has been called "profit." Presumably industry competes against industry, and unit against unit in the same industry, each seeking to sell its goods or services.

These enterprises, in return for certain privileges, are required to conform to certain laws of operation. They are provided with a tranquil atmosphere in which to operate, and guaranteed protection of their property. For these reasons, and because they are frequently the location of income production, they are often the situs of taxation.

It is difficult to adequately describe business and service enterprises in the United States. A recent study gives the number of American enterprises in 1935 as 9,334,437, employing an average of 34,000,000 workers for the year, in units averaging 3.7 workers per enterprise.[15] A regrouping of the data appears in table 22. The figures in the table show conclusively how misleading any single statement may be which attempts to summarize the number and kinds of business enterprises. The typical American enterprise is a farm worked by the farmer and a hired man. Agricultural enterprises are 67 percent of all concerns, and nonagricultural enterprises 33 percent.

The dominant form of nonagricultural enterprise is retail trade. There were an estimated 1,450,655 retail concerns operating in 1935; they were 15.5 percent of all enterprises and accounted for that same percentage of all workers. Such establishments are usually small concerns, employing on an average only 3.6 workers.

Manufacturing, which has come to represent American economic life in the popular mind, includes only 1.7 percent of all enterprises, but it employs 25 percent of all workers in its several branches. There is a marked concentration within manufacture, with a few large plants dominating the field in almost all branches of production; yet the average manufacturing enterprise in 1935 employed only 53 workers.

Table 22 gives no indication of the ownership of enterprises, but simply enumerates their number. Relatively speaking, the number of independent telephone and telegraph companies is very small, yet the table lists the total as 44,851. This is because the table lists as individual enterprises what may actually be multiple units of single large organizations or corporations.

Some observers have felt that economic expansion is taking place in the service trades. In 1935 this field comprised 9.5 percent of all enterprises, but employed only 5.2 percent of all workers. This includes a large number of lawyers' and doctors' offices, in which only the professional person and his office girl are employed.

[15] National Industrial Conference Board, Enterprise and Social Progress, New York, 1939, p. 233 ff.

TABLE 22.—*American enterprises, number and workers, 1935*

Activities	Enterprises			Workers			
	Number	Percent of nonagricultural	Percent of total	Average number for year	Percent of nonagricultural	Percent of total	Average per enterprise
Total, recorded and estimated	[1] 9,334,437		100.0	34,103,428		100.0	3.7
Agricultural	[1] 6,242,500		66.9	12,407,614		36.4	2.0
Nonagricultural	[1] 3,091,937	100.0	33.1	[2] 22,012,204	100.0	63.6	7.0
Manufacturing	[1] 162,000	5.2	1.7	8,536,440	39.3	24.9	52.7
Mining and quarrying [3]	10,135	.3	.1	863,948	4.0	2.5	85.2
Transportation	63,596	2.1	.7	1,434,703	6.6	4.2	22.6
Steam railroads, class I	144			994,078		2.9	6,903.3
Electric railroads [4]	485			182,165		.5	375.6
Motor bus transportation	1,751			40,556		.1	23.2
Motor trucking for hire	61,216		.7	217,904		.6	3.6
Public utilities	46,478	1.5	.5	626,365	2.9	1.8	13.5
Telephone and telegraph [3]	44,851		.5	400,808		1.2	8.9
Light and power, commercial companies [3]	1,627			225,557		.7	138.6
Construction	69,838	2.3	.7	478,330	2.2	1.4	6.8
Trade	1,627,411	52.6	17.4	6,652,019	30.7	9.5	4.1
Wholesale	176,756		1.9	1,374,942		4.0	7.8
Retail	[1] 1,450,655		15.5	5,277,077		15.5	3.6
Financial	119,723	3.9	1.3	913,068	4.2	2.7	7.6
Banks	19,581		.2	266,458		.8	13.6
Financial institutions other than banks	24,520		.3	171,954		.5	7.0
Insurance carriers	4,428			286,202		.8	64.6
Insurance agencies	35,057		.4	106,018		.3	3.0
Insurance and real estate	21,567		.2	52,361		.2	2.4
Real estate	14,570		.2	30,075		.1	2.1
Service	891,098	28.8	9.5	1,769,998	8.2	5.2	2.0
Personal services	355,976		3.8	661,305		1.9	1.9
Business services	29,859		.3	198,236		.6	6.6
Repair services	97,654		1.0	172,213		.5	1.8
Custom industries	85,270		.9	160,343		.5	1.9
Miscellaneous services	5,949		.1	22,975		.1	3.9
Lawyers, physicians, surgeons, dentists	[5] 316,390		3.4	[5] 554,926		1.6	1.8
Miscellaneous activities	101,658	3.3	1.1	737,333	3.4	2.2	7.3
Advertising agencies	1,212			13,622			11.2
Amusement places	37,677		.4	189,004		.6	5.0
Cemeteries, privately operated	2,060			14,508			7.0
Hotels	28,822		.3	315,738		.9	11.0
Office buildings	9,061		.1	86,926		.3	9.6
Professional service	9,045		.1	49,725		.1	5.5
Radio broadcasting	564			14,561			25.8
Tourist camps	9,848		.1	15,823			1.6
Warehousing	3,014			33,944		.1	11.3
Water works, privately owned	355			3,482			9.8

[1] Partly estimated.
[2] Since the available data are not exact, there is a variation of slightly more than 1 percent between the total nonagricultural and the constituent figures.
[3] 1929.
[4] Operating roads in 1932.
[5] 1934, estimated.

Source: Adapted from National Industrial Conference Board, Enterprise and Social Progress, 1939, p. 234.

The relative importance of nonagricultural enterprises is as follows:

Nonagricultural enterprises	Percentage	Percentage of workers	Nonagricultural enterprises	Percentage	Percentage of workers
Manufacturing	5.2	38.8	Financial	3.9	4.1
Mining and quarrying	.3	3.9	Service	28.8	8.0
Transportation	2.1	6.5	Miscellaneous	3.3	3.4
Public utilities	1.5	2.8			
Construction	2.3	2.2	Total	100.0	100.0
Trade	52.6	30.3			

Typical nonfarm enterprises are shopkeeping and service activities of a personal or professional kind, for these two groups comprise over 75 percent of all enterprises. In terms of number of persons employed, however, manufacturing leads all nonagricultural enterprises, employing more workers than trade and service enterprises combined.

The trend in the business population of the United States is given in table 23, which covers enterprises in mining, manufacturing, trade, and service industries, but excludes agriculture, financial institutions, railroads or professional enterprise. From 1,174,000 business enterprises in existence in 1900, their number increased to reach the peak of 2,213,000 in 1929. The depression which followed reduced the number by 252,000 enterprises in 1933. Thereafter each year saw a net increase until in 1938 there were only 111,000 fewer enterprises operating than in 1929, and in number of business concerns the national economy was back to approximately the level of 1925.

TABLE 23.—*United States business population, 1900–38*

[Absolute figures in thousands]

Year	Total enterprises		New enterprises		Enterprises discontinued		Net gain or loss
	Number	Percent increase	Number	Percent increase	Number	Percent increase	
1900	1,174	----------	272	----------	248	----------	24
1910	1,515	29.0	358	31.6	348	40.3	10
1920	1,821	20.2	459	28.2	353	1.4	106
1921	1,927	5.8	483	5.2	427	21.0	56
1922	1,983	2.9	491	1.7	478	11.9	13
1923	1,996	.7	469	−4.5	417	−12.8	52
1924	2,047	2.6	477	1.7	411	−1.4	66
1925	2,113	3.2	496	4.0	451	9.7	45
1926	2,158	2.1	484	−2.4	471	4.4	13
1927	2,172	.6	483	−.2	456	−3.2	27
1928	2,199	1.2	476	−1.4	463	1.5	13
1929	2,213	.6	453	−4.8	483	4.3	−30
1930	2,183	−1.4	423	−6.6	481	−.4	−58
1931	2,125	−2.7	355	−16.1	404	−16.0	−49
1932	2,077	−2.3	338	−4.8	454	12.4	−116
1933	1,961	−5.6	345	2.1	332	−26.9	13
1934	1,974	.7	379	9.9	319	−3.9	60
1935	1,983	.5	392	3.4	385	20.7	7
1936	2,010	1.4	408	4.1	382	−.8	26
1937	2,057	2.3	400	−2.0	351	−8.1	49
1938	2,102	2.2	----------	----------	----------	----------	----------

Source: Adapted from exhibit No. 52, testimony of Dr. Willard Thorp in Hearings before the Temporary National Economic Committee, Part I, p. 227.

Business is constantly undergoing changes. New enterprises are established, and old ones disappear through failures, mergers, and consolidations. Table 23 gives some evidence as to the extent of such changes. The period after 1900 was one of great population growth, urbanization, and economic expansion. These conditions are reflected in the figures on new and discontinued enterprises, for both have gained in the successive decades of the century, although the annual gain has not been constant. Since 1920 the greatest increase in new enterprises was in 1925, when 496,000 were added to the business community. The largest number of enterprises discontinued was 483,000 in 1929, largely attributable to the crash which occurred in that year. In the years from 1929 to 1937, 3,493,000 new enterprises have entered, and 3,591,000 discontinued business.

Table 24 gives index numbers showing the number of enterprises in comparison with the peak prosperity year 1929. In 1933 the number of enterprises was 11.4 percent below the peak. Despite a reduction in current national income of 21.6 percent from 1929 to 1938 (table 14), and of private production income of 30.9 percent (table 15) there were only 5 percent fewer business enterprises operating in 1938 than at the peak of prosperity. Since 1929 the annual number of new enterprises has never equaled that year's figure. Nor did any depression year enumerated in the table see as many business enterprises discontinued as were closed in 1929 and 1930, although 1922 was nearly as severe.

TABLE 24.—*Indexes of United States business population, 1900–1938*

[1929=100]

Year	Total enterprises	New enterprises	Discontinued enterprises	Year	Total enterprises	New enterprises	Discontinued enterprises
1900	53. 1	60. 0	51. 3	1929	100. 0	100. 0	100. 0
1910	68. 5	79. 0	72. 0	1930	98. 6	93. 4	99. 6
1920	82. 3	101. 3	73. 1	1931	96. 0	78. 4	83. 6
1921	87. 1	106. 6	88. 4	1932	93. 9	74. 6	94. 0
1922	89. 6	108. 4	99. 0	1933	88. 6	76. 2	68. 7
1923	90. 2	103. 5	86. 3	1934	89. 2	83. 7	66. 0
1924	92. 5	105. 3	85. 1	1935	89. 6	86. 5	79. 7
1925	95. 5	109. 5	93. 4	1936	90. 8	90. 1	79. 1
1926	97. 5	106. 8	97. 5	1937	93. 0	88. 3	72. 7
1927	98. 1	106. 6	94. 4	1938	95. 0	----------	----------
1928	99. 4	105. 1	95. 9				

Source: Table 23, p. 317.

ROLE OF CORPORATE ENTERPRISE

The business activities of the United States are carried on under various forms of ownership—independent proprietorships, partnerships, and corporations. In agriculture, independent proprietorships predominate. Likewise, in nonagricultural enterprise independent shopkeepers are probably operating 60 percent or more of all business concerns.[16] Approximately 30 percent are corporations, and the remaining 10 percent are partnerships.

The corporation is relatively new among the various forms of business enterprise in the United States. At the beginning of the nineteenth century there were only 225 private corporations in the country, less than 20 of which were manufacturing and mercantile concerns.[17] During the first half of that century incorporation was by private statute, and not until after the Civil War did general incorporation become important.

The corporation lends itself very readily to large-scale activities which require substantial capitalization, operation through multiple outlets, a guaranty of limited liability of owners, provision for stock-distribution plans of diffused ownership, and continuous existence regardless of the death or removal of managers and part-owners. The growth of this form of business enterprise was extremely rapid. Up

[16] The data are too fragmentary to allow any accurate figure. This approximation is made from data presented by Dr. Willard Thorp on corporations and partnerships, and business enterprises, reported in Temporary National Economic Committee Hearings, Part. I, pp. 227–228.
[17] H. Dewey Anderson, Our California State Taxes, Stanford University Press, 1937, p. 230 ff.

to the Civil War, independent ownership had dominated the business scene, both numerically and in volume of business done. By 1930, however, corporations had so increased in importance that they had become firmly entrenched as the leaders, both in their contribution to the national income, and in their volume of business.

Table 25 gives certain data concerning the proportion of national income produced by various industries and volume of business done by corporations and other forms of enterprise in these industries.

TABLE 25.—*Proportion of national income produced and volume of business done by corporations and other forms of enterprise, 1937*

Industry	Percentage of national income produced	Volume of business done	
		Corporations	Others
Manufacturing	24.0	92	8
Government, including work-relief wages	13.5	58	12
Trade	12.5	58	42
Services	11.9	30	70
Finance	9.3	84	16
Agriculture	8.9	7	93
Transportation	7.3	89	11
Mining	2.1	96	4
Contract construction	2.1	36	64
Electric light and power and manufactured gas	1.6	100	0
Communication	1.3	100	0
Miscellaneous	4.2	33	67
Total	98.7	60-65	35-40

Source: Temporary National Economic Committee Hearings, Part I, pp. 96, 97.

It is not the numerical importance of corporations which determines their dominant place in American economic life, but the fact that they produce such a large share of the goods and services of the Nation. Thorp estimates that corporations conduct between 60 and 65 percent of the total volume of business in the country.[18] The corporate share in the production of economic goods ranged from 100 percent in the communication and power, light, and gas industries to 7 percent of agricultural production. But it is the dominance of corporations in large capital and labor-using fields which makes them such vital factors in the Nation's economy. Manufacturing under corporate control, for example, is 92 percent of all manufacturing. Even trade, a citadel long held by small independent proprietors against the encroachments of the corporation, had become 58 percent corporate in terms of volume of business in 1937. All levels of Government, Federal, State, and local, have found the corporate form of organization suitable for business purposes in many instances, so that by 1937, 58 percent of its operations were conducted by public corporations. The various professional and personal services are still some 70 percent under individual proprietorships or partnerships. But even here, as chain systems and multiple outlets become more profitable than single units, the corporation is rapidly gaining headway.[19]

Table 26 is a measure of the importance of size of business concerns, in terms of number of workers reported by employers to the Social Security Board in 1937 for old-age pension purposes. The data

[18] Ibid., p. 97.
[19] See H. Dewey Anderson and P. E. Davidson, Occupational Trends, Stanford University Press, 1940, chapters on Trade, Professional Service, Personal Service, Manufacturing, for further data on this subject.

contain some duplications, which do not seriously interfere with comparisons between various classes of employers. Also, the coverage is not complete for all employers of labor, and is primarily of value in describing conditions among nonagricultural enterprises.

TABLE 26.—*A sample of all manufacturing industries comprising 84 of 308 industries—32,445 manufacturing concerns employing 3,534,836 wage earners in 1933*

Industry	Number of concerns	Average number of wage earners	Six largest concerns	
			Percentage of all concerns	Percentage of wage earners
Agricultural implements	145	11,140	4.1	70.8
Aircraft	60	7,816	10.0	79.3
Aluminum products	95	13,634	6.3	76.7
Asbestos packing products	164	10,669	3.7	56.5
Asphalted-felt-base floor covering, etc	12	5,092	50.0	92.1
Bolts, nuts, washers, and rivets	92	8,486	6.5	59.2
Boots and shoes	1,014	190,914	.6	26.0
Boxes, paper	1,014	47,220	.6	11.6
Canned and dried fruits and vegetables, etc	1,656	84,274	.4	19.4
Carpets and rugs, wool	50	21,296	12.0	64.5
Cars, electric and steam railroad	43	14,266	14.0	70.1
Cash registers, etc	35	10,908	17.1	84.9
Cast-iron pipe fittings	50	9,454	12.0	49.7
Cement	78	15,829	7.7	42.6
Chemicals	341	53,190	1.8	44.4
Cigarettes	19	22,544	31.6	99.4
Cigars	619	54,558	1.0	36.2
Clay products, etc	762	31,944	.8	22.0
Clocks, etc	52	12,850	11.5	67.2
Clothing, men's, youths', and boys'	2,151	19,253	.3	12.0
Clothing, women's	5,240	159,832	.1	3.7
Coke-oven products	67	13,066	9.0	53.2
Collars, men's	9	1,213	66.7	------
Confectionery	1,181	50,609	.5	18.5
Cordage and twine	100	11,145	6.0	37.4
Corn syrup, etc	21	7,591	28.6	90.4
Cotton goods	785	379,445	.7	12.4
Dyeing and finishing textiles	578	66,309	1.0	19.9
Electrical machinery, etc	1,940	130,857	.6	47.4
Engines, etc	170	23,535	3.5	45.7
Explosives	28	4,168	21.4	87.4
Fertilizers	312	13,063	1.9	40.1
Firearms	21	3,382	28.6	86.8
Forgings, iron and steel	169	7,953	3.6	26.1
Furniture	2,250	105,488	.3	8.2
Glass	159	49,797	3.8	44.1
Hardware	367	32,550	1.6	40.4
Hats, fur-felt	114	12,540	5.3	54.0
Leather, tanned, curried, and finished	311	44,191	1.9	25.9
Liquors, distilled and ethyl alcohol	35	2,514	17.1	68.2
Machine tools	229	12,714	2.6	29.7
Matches	11	4,726	54.5	86.9
Meat packing, wholesale	949	113,193	.6	56.1
Meters, etc	56	3,156	10.7	62.4
Motion pictures	82	10,777	7.3	79.4
Motorcycles, etc	17	3,038	35.3	80.2
Motor-vehicle bodies	632	145,745	.9	67.2
Motor vehicles	84	97,869	7.1	78.4
Musical instruments, pianos	36	2,700	16.7	63.8
Paper	445	87,224	1.3	16.5
Pencils, lead	24	3,469	25.0	71.5
Petroleum refining	216	69,047	2.8	52.7
Photographic apparatus, etc	77	8,975	7.8	88.7
Planing-mill products	2,274	35,388	.3	7.1
Plumbers' supplies	224	15,893	2.7	35.9
Pottery	216	23,632	2.8	25.5
Pulp	124	20,074	4.8	34.5
Radio apparatus and phonographs	150	32,879	4.0	58.2
Rayon, etc	21	44,306	28.6	84.9
Refrigerators, etc	191	26,398	3.1	63.9
Rubber goods	331	35,205	1.8	26.6
Rubber tires and inner tubes	36	52,976	16.7	77.9
Sewing machines	28	6,313	21.4	90.4
Shipbuilding and boatbuilding	368	30,855	1.6	54.2
Shirts	457	53,816	1.3	25.7
Silk and rayon goods	895	110,322	.7	13.9

TABLE 26.—*A sample of all manufacturing industries comprising 84 of 308 industries—32,445 manufacturing concerns employing 3,534,836 wage earners in 1933*—Continued

Industry	Number of concerns	Average number of wage earners	Six largest concerns	
			Percentage of all concerns	Percentage of wage earners
Smelting and refining:				
Copper	11	5,596	54.5	90.5
Lead	7	2,105	85.7	
Zinc	19	6,866	31.6	70.2
Soap	212	14,304	2.8	70.6
Stamped ware, etc	540	32,302	1.1	16.3
Steam and hot-water heating apparatus	198	22,301	3.0	52.5
Steel works and rolling-mill products	254	276,847	2.4	57.5
Stoves, etc	528	30,193	1.1	20.4
Sugar beet	23	10,706	26.1	80.1
Sugar refining, cane	13	11,495	46.2	77.5
Textile machinery	302	18,576	2.0	47.9
Tin cans, etc	116	23,343	5.2	71.4
Typewriters	8	9,591	75.0	
Washing machines, etc	39	6,956	15.4	68.3
Watchcases	20	1,168	30.0	86.0
Wire drawn from purchased rods	65	14,656	9.2	52.6
Woolen goods	309	48,536	1.9	25.2
Worsted goods	186	78,691	3.2	38.4
Wrought pipe, welded and heavy-riveted	37	6,552	16.2	71.4

Source: Anderson, H. D., and Davidson, P. E., Occupational Trends, Stanford University Press, 1940.

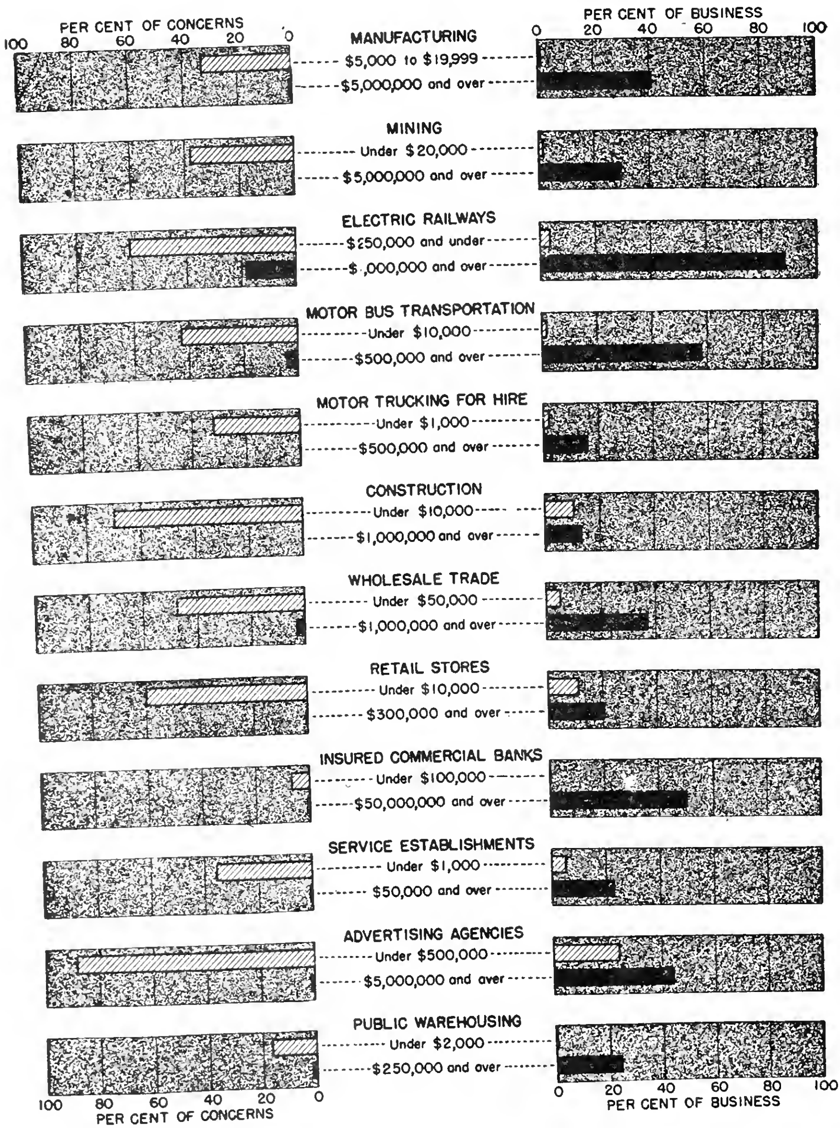
Small employers, with less than 10 workers in their establishments, are 76 percent of all reporting, but they have only 11 percent of all employees. Large employers, having 100 or more workers made up primarily, if not entirely, of corporations, are less than 3 percent of all employers, but they employ 62 percent of all workers.[30]

While the dominance of large corporations is not the same in all fields, still it remains characteristic of the economy as a whole. Table 27, chart 18, summarizes the proportion of business done, wage earners employed, or physical property operated by the smallest and largest groups in various types of business. The measures are not the same, so that, strictly speaking, the columns of the table may not be read vertically to determine relative concentration in the several industries. However, the same general conditions prevail.

[30] *Ibid.*, p. 320.

CHART 18

COMPARISON BETWEEN SMALLEST AND LARGEST BUSINESS GROUPS
BY CLASS OF ACTIVITY AND VALUE OF PRODUCT



SOURCE: Adapted from: ENTERPRISE AND SOCIAL PROGRESS, National Industrial Conference Board, New York, 1939, pp 235-239

TABLE 27.—*Smallest and largest groups, as percentages of total number and total volume of business*

Activity and type of classification	Smallest group			Largest group		
	Description of size classification	Percent of—		Description of size classification	Percent of—	
		Concerns	Business		Concerns	Business
Classification by value:						
Manufacturing, 1929.	Value of product, $5,000 to $19,999.	32.9	1.1	Value of product, $5,000,000 and over.	0.9	40.9
Mining and quarrying, 1929.	Value of product, less than $20,000.	37.7	1.4	do	.5	29.9
Electric railways (operating), 1932.	Operating revenue, $250,000 and less.	60.4	3.6	Operating revenue, over $1,000,000.	18.1	88.6
Motor-bus transportation, 1935.	Revenue under $10,000	42.4	1.9	Revenue over $500,000	3.8	58.0
Motor trucking for hire, 1935.	Revenue under $1,000	31.9	2.0	do	.2	16.1
Construction, 1935.	Value of work performed, less than $10,000.	69.5	10.5	Value of work performed, $1,000,000 and over.	.1	13.3
Wholesale trade, 1935.	Annual net sales, under $50,000.	47.3	4.9	Annual net sales, $1,000,000 and over.	3.0	37.1
Retail stores, 1935	Annual value of sales, under $10,000.	59.9	11.0	Annual value of sales, $300,000 and over.	.5	20.7
Insured commercial banks, 1936.	Deposits under $100,000.	6.5	.1	Deposits over $50,000,000.	.8	55.1
Service establishments, 1935.	Annual receipts, under $1,000.	35.3	5.2	Annual receipts, $50,000 and over.	.6	22.9
Advertising agencies, 1935.	Annual billings, under $500,000.	88.6	24.2	Annual billings, over $5,000,000.	1.5	44.2
Public warehousing, 1935.	Annual revenue, under $2,000.	16.5	.6	Annual revenue, $250,000 and over.	1.7	24.2
Classification by wage earners:						
Manufacturing, 1929.	Less than 5 wage earners.	[1] 48.9	[2] 3.2	Over 1,000 wage earners.	.5	[2] 24.5
Mining and quarrying, 1929.	do	[1] 27.8	[2] 1.0	Over 2,500 wage earners.	.2	[2] 16.4
Classification by physical units:						
Farms, 1935	Under 10 acres per farm.	8.4	[3] .3	Over 1,000 acres per farm.	1.3	[3] 29.4
Hotels, 1935	Less than 25 rooms	45.4	7.6	Over 300 rooms	1.8	39.7

[1] Including concerns with no wage earners.
[2] Percent of total number of wage earners.
[3] Percent of total acreage in farms.

Source: Adapted from National Industrial Conference Board, Enterprise and Social Progress, New York, 1939, pp. 235–239.

In 1937 the Twentieth Century Fund made a careful study of big business, from which the writer compiled table 26.[21] There were, for instance, 145 concerns manufacturing agricultural implements, employing on an average 11,140 workers; but the 6 largest concerns, representing only 4.1 percent of all, employed 70.8 percent of all workers. In certain fields virtual monopolies exist, as seen from the following data where the 6 leading concerns employ more than 90 percent of all the workers:

Industry:	*Percentage of workers*
Asphalted felt	92.1
Cordage and twine	90.4
Sewing machines	90.4
Copper smelting	90.5
Cigarettes	99.4

[21] *Ibid.*

In 20 of the sample of 84 industries, over three-fourths of all workers were employed by the leading 6 companies; in 47 industries the leading 6 concerns employed one-half or more of all workers.

Corporations with assets of less than $50,000 are 52.7 percent of all corporations, but their share of the total business done is relatively small and they amass only 1 percent of all cash dividends. At the other extreme are the giants with assets of $50,000,000 or more. They number only 0.2 percent of all corporations, but they pay out 58.9 percent of all cash dividends.

Not only has the corporation come to play a dominant role in American enterprise in terms of its proportion of total capital, national income, business profits, production of goods and services, and employment of workers, but within the corporations themselves ownership and control have become so concentrated as to permit a few giants to dominate much of American business life. In some fields the extent of domination is so great that a single corporation, or a few corporations, command the business field.[22]

In tables 28 and 29 the number and size of corporations and distribution of dividends are displayed.[23]

TABLE 28.—*Number, size, and character of corporations, 1931-32*

Total assets [1]	Number	Percentage	Cash dividends— In dollars	Cash dividends— In percentages
Under $50,000	206,477	52.7	$40,000,000	1.0
$50,000 to $500,000	146,242	37.3	218,000,000	5.6
$500,000 to $5,000,000	34,295	8.7	503,000,000	13.1
$5,000,000 to $50,000,000	4,389	1.1	824,000,000	21.4
$50,000,000 and over	618	.2	2,270,000,000	58.9
Total	392,021	100.0	3,855,000,000	100.0

[1] Involving a combined total of $280,083,000,000.

Source: H. Dewey Anderson, Our California State Taxes, Stanford University Press, 1937, p. 231.

[22] These are the conclusions to be drawn from such scientific treatises as A. A. Berle and Gardiner Means, The Modern Corporation and Private Property; National Resources Committee, The Structure of the American Economy Part I, Washington, D. C., 1939; hearings of the Temporary National Economic Committee, 1938–40; and National Industrial Conference Board, Studies in Enterprise and Social Progress, New York, 1939; etc.

[23] H. Dewey Anderson, Our California State Taxes, Stanford University Press, 1937, pp. 231–232. The original data were compiled and presented by T. J. Kreps, Dividends, Interest, Profits, Wages, 1923–35, Quarterly Journal of Economics, vol. 49, August 1935, p. 583.

TABLE 29.—*Distribution of dividends by net income classes, before and after payment of Federal income tax, 1929 and 1936*

Net income class (in thousands)	1929					1936				
	Dividends paid—				Percentage of dividends taken by tax	Dividends paid—				Percentage of dividends taken by tax
	Before tax		After tax			Before tax		After tax		
	Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent	
5 to 10	$506.1	11.9	$506.1	12.4	0	$412.8	16.0	$402.7	18.9	2.4
10 to 25	930.7	21.9	925.2	22.7	.6	657.2	25.4	617.7	29.0	6.0
25 to 50	736.1	17.3	713.2	17.5	3.1	502.1	19.4	441.8	20.8	12.0
50 to 100	645.8	15.2	609.7	14.9	5.6	412.9	16.0	327.6	15.4	20.7
100 to 150	305.1	7.2	283.5	7.0	7.1	164.2	6.4	111.8	5.3	31.9
150 to 300	377.6	8.9	348.8	8.6	7.6	182.1	7.0	109.6	5.2	39.8
300 to 500	201.1	4.7	185.9	4.6	7.6	83.9	3.2	42.8	2.0	49.0
500 to 1,000	213.3	5.0	197.2	4.8	7.5	87.0	3.4	39.9	1.9	54.1
1,000 and over	331.1	7.8	309.2	7.6	6.6	81.7	3.2	33.6	1.6	58.9
Total	4,247.0	100.0	4,078.7	100.0	4.0	2,583.9	100.0	2,127.6	100.0	17.7

Source: National Industrial Conference Board, Enterprise and Social Progress, New York, 1939, pp. 128, 131.

In fact, so important has concentration within the corporate structure become that E. D. Kennedy in Dividends to Pay says:

The essential difference between the corporate money makers and the corporate money losers is the difference between operating on a monopoly basis and on a competitive basis. In more general terms, we may say that in this country we have two forms of capitalism—monopoly capitalism and competitive capitalism. * * * The greatest difficulty in detecting monopolies comes from the fact that even the most monopolistic industry usually contains at least two, and often a dozen or more, very large corporations which make an elaborate pretence of competing with each other. * * * The distinguishing characteristic of a monopolized industry is that, although it may have more than one large corporate member, it does not have many large corporate members. There are only two large sulphur companies, four large cigarette companies, three large copper companies, hardly a dozen large steel companies. * * * They cherish each other's profits almost as dearly as they cherish their own. And competition, particularly price competition, is to them an abhorrent term. But whenever they are accused of being monopolies they can always cite the presence of a competitor in the same field. The public does not yet realize that the so-called competitor does not necessarily compete. I suppose it imagines that the standard-priced cigarettes always sell for close to 15 cents a pack, regardless of the cost of the tobacco that goes into them, merely through a coincidence.[24]

[24] E. D. Kennedy, Dividends to Pay, Reynal and Hitchcock, New York, 1939, pp. 74, 76, 78.

APPENDIX B

SUPPLEMENTARY DATA ON GOVERNMENT EXPENDITURES

(NOTE.—Tables 1 to 6 are detailed analyses of Budget items, arranged according to function. They are summarized in table 25, p. 66.)

TABLE 1.—*Social welfare—Expenditures, 1939*

Social Security:		
Independent establishments:		
Railroad Retirement Board [1]	$110, 381, 587. 72	
Social Security Board	330, 563, 601. 87	
Department of Commerce:		
Bureau of Census: Salaries, expenses. Social Security Act	81, 067. 92	
Total Social Security		$441, 026, 257. 51
Public Health:		
Independent establishments:		
Public Health Service [1]	$1, 925, 551. 74	
Health Survey	882, 645. 15	
Department of Interior:		
Bureau of Indian Affairs: Conservation of health	5, 358, 474. 27	
St. Elizabeths Hospital: Salaries and expenses	1, 109, 329. 39	
Freedmen's Hospital	221, 250. 39	
Department of Justice:		
Penal and correctional institutions:		
Medical Center for Federal prisoners, maintenance	385, 811. 88	
Medical and hospital services	601, 458. 15	
Department of Labor:		
Children's Bureau:		
Maternal and child welfare, Social Security Act	323, 928. 10	
Grants to States under Social Security Act: Material and child health service	3, 739, 063. 23	
Total Public Health		14, 547, 512. 30
Relief:		
Independent establishments:		
Federal Emergency Relief Administration	$1, 659, 785. 82	
Federal Security Agency:		
National Youth Administration	78, 102, 755. 96	
Office of Education:		
Assistance to professional persons	576, 835. 80	
Grants to States, emergency relief	112. 74	
Public Health Service: Assistance to professional persons	193, 207. 69	
Federal Works Agency:		
Public Buildings Administration: Assistance to professional persons	14, 050. 93	
Work Projects Administration	2, 161, 500, 655. 13	
Department of Agriculture:		
Office of Secretary: Administrative expenses, emergency relief	7, 717. 27	
Forest Service: Loans and relief	45. 34	
Bureau of Agricultural Economics: Assistance to professional persons	621. 76	
Rural Electrification Administration:		
Loans to States, emergency relief	256, 042. 44	
Assistance to professional persons	116, 406. 52	
Farm Security Administration [1]	174, 054, 832. 61	
Agricultural Adjustment Administration: Assistance for educational persons, etc	107, 422. 82	
Department of the Interior:		
Office of Secretary: Administrative expenses, emergency relief	602. 68	
Government in the Territories: Territory of Alaska, emergency relief	113, 167. 48	
Department of Labor: Office of Secretary: Assistance for educational persons, etc	16. 28	
Treasury Department: Office of Secretary: Assistance for educational persons, etc	1, 494, 617. 71	
War Department:		
Quartermaster Corps: Assistance for educational persons, etc	62, 880. 12	
Corps of Engineers: Assistance for educational persons, etc	100, 711. 73	
Disaster Loan Corporation, stock	8, 000, 000. 00	
Total relief		2, 426, 362, 488. 83
Housing, rehabilitation:		
Independent establishments: District of Columbia Alley Dwelling Authority	$65, 133. 97	
Federal Works Agency: U. S. Housing Authority	8, 629, 331. 59	
Department of Agriculture:		
Farm Tenant Act: Resettlement projects	1, 679, 842. 82	
Farm Security Administration: Rural rehabilitation, etc	8, 588, 341. 32	
Total housing, rehabilitation		18, 962, 649. 70

[1] **Exclusive of items elsewhere classified.**

TABLE 1.—*Social welfare—Expenditures, 1939*—Continued

Education:		
Independent establishments: Federal Security Agency:		
Office of Education [1]	$5,316,642.82	
Vocational education	21,804,047.72	
Department of the Interior:		
Columbia Institution for the Deaf	145,848.96	
Bureau of Indian Affairs: Education	10,068,473.76	
Government in the Territories: Public schools, Alaska	85,596.00	
Howard University	1,195,806.57	
Total education		$38,616,415.83
Miscellaneous:		
Independent establishments: Federal Security Agency: American Printing House for Blind	$115,000.00	
Department of the Interior:		
Bureau of Indian Affairs [1]	19,516,951.26	
Government in the Territories: Care and custody of insane, Alaska	205,504.35	
Total miscellaneous		19,837,455.61
Total social welfare		2,959,352,779.78

Source: Computed from The Budget of the United States Government for the Fiscal Year Ending June 30, 1941, statement No. 2, pp. A21 to A85.

TABLE 2.—*Interest and service on debt—Expenditures, 1939*

Interest and service on debt:	
Public debt service	$6,820,342.92
Public debt:	
Interest	940,539,763.50
Sinking fund	48,517,650.00
Retirement from gifts, forfeitures, etc	9,608,700.00
Redemption, received as payment from foreign government	120,100.00
Payment of interest on deposits of public moneys of Government of the Philippine Islands	2,123,887.45
Bureau of Indian Affairs, interest on Indian trust funds	376,551.19
Total, interest and service on debt	1,008,106,995.06

Source: Computed from The Budget of the United States Government for the Fiscal Year Ending June 30, 1941, Statement No. 2, pp. A21 to A85.

TABLE 3.—*Public Works—Expenditures, 1939*

Parks, monuments, expositions, reservations:		
Botanic Garden	$107,505.12	
Commission for Commemoration of the Battles of Chickamauga, etc	35,000.00	
American Battle Monuments Commission	133,393.05	
George Washington Bicentennial Commission	18,705.88	
National Capital Park and Planning Commission	639,759.49	
Northwest Territory Celebration Commission	27,041.67	
Pan American Exposition	94,128.40	
Perry's Victory Celebration	13,164.82	
Thomas Jefferson Memorial Commission	372,165.83	
United States Constitution Sesquicentennial Commission	88,047.81	
United States Golden Gate International Exposition Commission	1,020,325.13	
United States New York World's Fair Commission	2,338,966.47	
Memorial to persons killed in wreck of Shenandoah	2,500.00	
National Park Service (Public works fund)	8,522,118.33	
Forest Service: Park and recreational facilities	1,126.28	
George Rogers Clark Sesquicentennial Commission	11,198.14	
Perry's Victory Memorial Commission	7,480.84	
National Park Service	24,633,823.76	
War Department (civil funds), Quartermaster's Corps	2,022,992.88	
Total parks, etc		$40,089,443.90
Public buildings, erection, maintenance and rental:		
Architect of the Capitol [1]	$3,275,902.87	
Judicial establishment:		
Care of Supreme Court Building and grounds	61,598.78	
Repairs and improvements, District Court of the United States, for the District of Columbia	15,597.38	
Repairs and improvements, United States Court of Appeals buildings, District of Columbia	10,835.64	
Executive office and independent establishments:		
Maintenance, Executive Mansion and grounds	160,476.08	
Supreme Court Building Commission	9,608.79	
Veterans' Administration: Construction and improvement of buildings	742,492.47	
Public Buildings Administration [1]	21,290,025.98	
General public works program:		
Public Buildings Administration	44,147,926.19	
Public Health Service: Building and structure (N. I. R. & P. W. A.)	849,689.90	
Department of Commerce	30,910.88	

[1] Exclusive of items elsewhere classified.

TABLE 3.—*Public Works—Expenditures, 1939*—Continued

Public buildings, erection, maintenance and rental—Continued.		
General public works program—Continued.		
Department of the Interior:		
Bureau of Indian Affairs: Construction of buildings	$1,286,775.51	
St. Elizabeths Hospital	345,401.18	
Department of Justice	1,206,446.82	
Department of State: Foreign Service building fund	387,646.84	
Department of Agriculture:		
Rent of buildings	171,885.21	
Physical improvements, Beltsville, Md	1,597,315.23	
Bureau of Entomology and Plant Quarantine: Physical improvements	90,699.98	
Bureau of Agricultural Economics: Physical improvements	144,771.75	
Department of the Interior:		
Buildings, United States Representative in Philippine Islands	291,139.75	
St. Elizabeths Hospital: Recondition of structure	10,000.00	
Howard University: Structures	473,177.00	
Department of Justice: Penal institutions, structures	5,245,946.64	
Treasury Department: Custody of departmental buildings	664,999.80	
War Department: Construction and repair of hospitals	493,288.13	
Veterans' Administration: Hospitals and dormitories	6,592,546.58	
Total public buildings, etc		$89,600,114.68
Highways, airports, bridges, rivers, and harbors:		
Executive offices and independent establishments:		
Civil Aeronautics Authority:		
Establishment of air-navigation facilities	$5,269,738.00	
Emergency expenditures (P. W. A.)	1,205,983.87	
Maintenance and operation of air-navigation facilities	6,633,284.00	
Emergency expenditures (N. I. R.)	1,408,938.00	
Public Roads Administration	35,072,137.74	
General public-works program:		
Public Roads Administration	161,730,960.22	
National Advisory Committee for Aeronautics	34,184.00	
Department of Interior, Bureau of Indian Affairs: Roads and highways	3,070,201.49	
Navy Department, Bureau of Yards and Docks	13,928,698.27	
Department of State:		
Rio Grande rectification project	377,991.28	
Rio Grande canalization	696,680.79	
War Department: Improvement of rivers and harbors	72,856,519.00	
Department of Interior:		
Bureau of Indian Affairs: Roads and highways	24,091.87	
Government in the Territories:		
Wagon roads, etc., Alaska	157,375.09	
Construction of roads, bridges, railroads, etc	968,690.50	
Navy Department, Bureau of Yards and Docks [1]	29,743,844.10	
War Department:		
Quartermaster's Corps: Highways, roads, and streets	931,824.19	
Corps of Engineers: Rivers and harbors, etc	40,968,425.71	
Total, highways, etc		375,079,568.12
Conservation, irrigation, flood control, power development, forests:		
Executive offices, independent establishments:		
Federal Power Commission: Payments to States under Federal Water Power Act	$16,755.52	
Civilian Conservation Corps	290,385,528.11	
General public-works program:		
Tennessee Valley Authority	40,806,800.57	
Department of Agriculture: Forest roads and trails	13,464,855.34	
Department of the Interior:		
Power-distribution system, Bonneville project	1,544,167.62	
Bureau of Reclamation	48,070,735.95	
Bureau of Indian Affairs: Construction of irrigation systems	2,791,845.97	
Department of State: Lower Rio Grande flood-control project	997,351.08	
War Department: Flood control	73,512,483.03	
Department of Agriculture:		
Forest Service	32,224,652.35	
Soil Conservation Service	34,577,152.07	
Conservation and use of agriculture land resources	477,942,480.42	
Farm Security Administration: Flood control and other conservation	979,677.18	
Water facilities, arid and semi-arid areas	257,173.28	
Forest roads and trails	46,703.79	
Department of the Interior:		
Office of Secretary:		
Division of Grazing	730,540.55	
Petroleum Conservation Commission	253,399.72	
Bonneville project	3,505,232.79	
War Minerals Relief Commission	28,273.10	
Bureau of Indian Affairs:		
Development of water supply	70,109.49	
Irrigation and drainage	1,133,086.71	
Bureau of Reclamation	31,258,692.18	
Bureau of Fisheries	3,514,192.97	
War Department, Corps of Engineers: Flood-control projects	7,383,006.47	
Total, conservation, etc		1,065,492,896.26

[1] Exclusive of items elsewhere classified.

TABLE 3.—*Public Works—Expenditures, 1939*—Continued

Miscellaneous:		
Veterans' Administration: Public Works Administration Act of 1938	$4,354,999.21	
Public Works Administration	407,937,587.19	
Department of State: Fence construction on boundary, Arizona	21,952.11	
Rural Electrification Administration: Public buildings, parks, flood control, etc	38,921.87	
Department of Interior, Bureau of Indian Affairs: P. W. A. allotment	3,644,160.57	
Navy Department, Bureau of Yards and Docks:		
Public buildings, flood control, etc	1,295,176.03	
Public buildings, flood control, etc., W. P. A	13,083,068.05	
War Department:		
Quartermaster Corps: Miscellaneous public works	24,165,300.63	
Corps of Engineers (Civil Function): Miscellaneous public works	3,051,416.86	
Total miscellaneous		$457,592,582.52
Total public works		2,027,854,605.48

Source: Computed from the Budget of the United States Government for the Fiscal Year ending June 30, 1941, Statement No. 2, pp. A21 to A85.

TABLE 4.—*National defense—Expenditures, 1939*

Army: War Department (military activities):		
Construction of buildings, etc., at posts	$8,707,200.01	
Departmental salaries [1]	4,333,089.59	
Contingent expenses	239,917.85	
Secretary's office, military activity	235,986.05	
General Staff Corps	380,714.91	
Army War College	73,929.07	
Adjutant General's Department	74,559.38	
Finance Department	159,354,950.70	
Quartermaster Corps	103,359,353.66	
Signal Corps	6,276,362.07	
Signal Corps, Alaska Communication System	179,117.77	
Air Corps	83,164,155.56	
Medical Department	1,396,449.35	
Corps of Engineers	840,309.64	
Chemical Warfare Service	1,324,252.60	
Chiefs of Infantry, Cavalry, Field Artillery, and Coast Artillery	165,245.24	
Seacoast defenses	7,317,891.05	
National Guard Bureau	43,010,118.27	
Organized Reserves	9,939,856.91	
Citizens' military training	6,516,028.66	
Miscellaneous	1,001,036.22	
Military Academy	3,184,255.16	
Ordnance Department	28,640,360.78	
Total Army		$469,715,140.50
Navy Department:		
Navy Department [1]	$584,055,344.18	
Naval Academy	2,016,343.31	
Total Navy		586,071,687.49
Marine Corps		27,266,914.19
Veterans' benefits: Veterans' Administration:		
Army and navy pensions	$416,720,660.32	
Military and naval insurance	39,060,520.74	
Veterans' Administration, other	89,478,223.71	
Total veterans		545,259,404.77
Total national defense		1,628,313,146.95

[1] Exclusive of items elsewhere classified.

Source: Computed from The Budget of the United States Government for the Fiscal Year ending June 30, 1941, statement No. 2, pp; A21 to A85.

TABLE 5.—*Regulation of the economy—Expenditures, 1939*

Agricultural regulation and tenancy:		
Agricultural Marketing Service [1]	$3,865,268.55	
Agricultural Adjustment Administration [1]	308,547,549.46	
Farm Tenant Act: Land utilization and retirement of submarginal lands	4,666,746.26	
Total farm regulation, etc		$317,079,564.27
Loans to farmers:		
Farm Tenant Act, loans	$20,598,014.77	
Rural Electrification Administration, loans to private corporations, emergency expenditures	609,982.95	
Rural Electrification Administration, loans and purchase of property	35,318,238.50	
Commodity Credit Corporation	108,030.89	
Farm Credit Administration [1]	[2] 3,737,959.81	

[1] Exclusive of items elsewhere classified. [2] Excess of credits, deduct.

TABLE 5.—*Regulation of the economy—Expenditures, 1939*—Continued

Loans to farmers—Continued.		
Treasury Department:		
Payments to Federal Farm Mortgage Corporation, reduction of interest rate on mortgages	$7,818,547.62	
Payments to Federal land banks, reduction in interest rate on mortgages	30,639,785.96	
Subscriptions to paid-in surplus, Federal land banks	11,590,935.22	
Subscriptions to capital stock, Federal land banks	150,800.00	
Total loans to farmers		$103,096,376.10
Regulation of industry, finance and exchanges:		
Securities and Exchange Commission [1]	$4,718,293.04	
Department of Agriculture: Enforcement, Commodity Exchange Act	619,754.58	
Civil Aeronautics Authority Administration	1,893,332.00	
Economic regulation	250,276.00	
Safety regulation	1,341,598.00	
Federal Communications Commission [1]	1,751,273.34	
Federal Trade Commission [1]	2,137,577.03	
Interstate Commerce Commission [1]	8,243,540.51	
Department of Agriculture: Food and Drug Administration	2,235,204.47	
Department of Commerce: Patent Office [1]	3,765,399.03	
Department of the Interior: Bituminous Coal Commission	3,210,403.87	
Department of Justice: Enforcement of antitrust and kindred laws	774,329.59	
Treasury Department:		
Railroad Administration	29,383.45	
Federal Alcohol Administration	444,655.65	
Bureau of Narcotics	1,241,742.49	
Federal Power Commission: Salaries and expenses	1,817,468.21	
Total regulation of industry, etc		34,474,231.26
Loans to industry and finance:		
Federal Home Loan Bank Board	$1,116,697.71	
Federal Housing Administration:		
Administrative expenses	4,390,535.44	
Losses on renovations and modernization loans	4,750,332.00	
Treasury Department:		
Subscription to preferred shares Federal Savings and Loan Association, emergency expenditures	7.89	
War Finance Corporation, expenses	3,665.38	
Total loans to industry, etc		10,261,238.42
Other subsidy:		
Civil Aeronautics Authority: Technical development	$418,007.00	
National Advisory Committee for Aeronautics [1]	2,209,081.36	
Protecting interests of United States in matters affecting oil lands in former naval reserves	25,412.90	
Total other subsidy		2,652,501.26
Regulation of labor contracts:		
Maritime Labor Board	$81,624.02	
National Labor Relations Board [1]	2,761,572.28	
National Mediation Board [1]	347,954.17	
Department of Labor:		
Division of Public Contracts	300,311.41	
Children's Bureau—salaries and expenses, child-labor provisions, Fair Labor Standards Act	34,252.84	
Wage and Hour Division	1,044,165.71	
Total, labor contracts		4,569,880.43
Federal ownership and operation:		
Postal deficiency	$39,568,641.36	
Prison Industries Reorganizing Administration	5,701.76	
Department of Interior: General Land Office	5,159,260.38	
Total Federal ownership		44,733,603.50
Trade, merchant marine, Coast Guard:		
Independent establishments:		
Tariff Commission	$908,388.43	
U. S. Maritime Commission	43,567,188.81	
Export-Import Bank of Washington	3,295.88	
Department of Agriculture: Foreign Agriculture Relations	282,231.56	
Department of Commerce:		
Bureau of Marine Inspection and Navigation	2,636,429.08	
Coast and Geodetic Survey	3,165,053.12	
Department of State: Office of Secretary: Promotion of foreign trade	42,705.26	
Treasury Department: Coast Guard	44,676,562.01	
Total trade, etc		95,281,854.15
Total regulation of the economy		612,149,249.39

[1] Exclusive of items elsewhere classified.

Source: Computed from the Budget of the United States Government for the fiscal year ending June 30, 1941, statement No. 2, pp. A21 to A85.

TABLE 6.—*General Government—Expenditures, 1939*

Legislative:		
Senate	$3,704,611.82	
House of Representatives	8,614,783.06	
Miscellaneous	4,000.00	
Total legislative		$12,323,394.88
Executive:		
Salary of President and Vice President	$90,000.00	
White House office [1]	194,508.25	
Bureau of the Budget [1]	357,514.01	
Civil Service Commission: Salaries and expenses	3,070,846.38	
Employers Compensation Commission [1]	13,429,817.20	
General Accounting Office [1]	9,530,983.84	
Department of Agriculture: Office of the Secretary, salaries	571,684.32	
Department of Commerce: Secretary's office [1]	1,055,676.28	
Department of the Interior: office of Secretary, salaries	480,874.56	
Department of Justice: office of Attorney General, salaries	53,084.97	
Navy Department:		
Office of Secretary, salaries	195,529.39	
Office of Secretary, miscellaneous expenses	1,255,608.57	
Department of State: office of Secretary, salaries all departments	2,263,434.17	
Treasury Department:		
Office of the Secretary [1]	1,389,352.68	
Office of the Chief Clerk	404,701.19	
Office of Commissioner of Accounts and Deposits	13,059,679.28	
Office of Treasurer of United States	2,256,728.03	
Office of Comptroller of the Currency	247,881.69	
Bureau of Engraving and Printing	9,731,160.01	
Secret Service Division	1,292,794.65	
Bureau of the Mint	2,421,010.16	
Procurement Division	5,761,957.85	
War Department: Office of the Secretary, salaries	279,676.30	
Department of Labor: Office of the Secretary [1]	1,674,115.97	
United States employee retirement funds:		
Civil Service Commission:		
Civil service retirement and disability	74,244,000.00	
Canal Zone retirement and disability	500,000.00	
Alaska Railroad retirement and disability	175,000.00	
Total executive		145,987,619.75
Scientific and social research:		
National Resources Planning Board	$722,088.69	
Census of partial employment, etc	103,091.48	
National power survey	30,796.21	
Weather Bureau	4,923,478.11	
Bureau of Agricultural Economics [1]	861,334.65	
Agricultural Marketing Service:		
Crops and Livestock Estimates	642,930.08	
Market News Service	1,105,541.60	
Bureau of Home Economics	946,129.12	
Bureau of Foreign and Domestic Commerce	3,094,522.31	
Bureau of the Census [1]	2,036,408.22	
National Bureau of Standards	2,059,169.05	
Geological Survey [1]	4,388,146.69	
Consumers Council Division	204,795.98	
Bureau of Mines	2,955,416.93	
Bureau of Biological Survey	4,913,741.04	
Bureau of Labor Statistics	1,787,366.40	
Treasury Department: Division of Research and Statistics	169,444.53	
Office of Government Reports [1]	768,956.51	
Department of Agriculture:		
Office of Experiment Stations	6,763,965.15	
Special research fund	1,368,631.36	
Extension Service	18,690,434.21	
Bureau of Animal Industry	16,329,927.15	
Bureau of Dairy Industry	679,503.06	
Bureau of Plant Industry	5,313,432.62	
Bureau of Agricultural Chemistry and Engineering	1,281,859.00	
Bureau of Entomology and Plant Quarantine [1]	16,553,462.69	
Mediterranean Fruit Fly Board	7,684.81	
Beltsville Research Center	294,670.07	
Department of the Interior:		
Government in the Territories:		
Agricultural experiment stations and vocational schools	37,750.00	
Total, research		99,034,707.72
Libraries, printing, information:		
Library of Congress	$2,946,137.92	
Government Printing Office	3,376,348.12	
Printing and binding:		
U. S. Supreme Court	22,508.13	
United States courts	32,499.00	
White House office	2,256.74	
Bureau of the Budget	39,145.91	
Office of Government Reports	35,931.00	
Board of Tax Appeals	31,449.06	
Civil Service Commission	106,648.21	

[1] Exclusive of items elsewhere classified.

TABLE 6.—*General Government—Expenditures, 1939*—Continued

Libraries, printing, information—Continued.		
Printing and binding—Continued.		
Employees' Compensation Commission	$7,615.61	
Federal Communications Commission	25,395.96	
Federal Power Commission	33,560.63	
Federal Trade Commission	46,532.56	
General Accounting Office	76,218.86	
Interstate Commerce Commission	175,313.95	
National Advisory Committee Aeronautics	19,692.23	
National Labor Relations Board	111,050.08	
National Mediation Board	2,266.56	
National Railroad Adjustment Board	56,344.29	
Railroad Retirement Board	60,654.43	
Securities and Exchange Commission	55,654.08	
Tariff Commission	19,558.82	
Veterans' Administration	121,279.07	
Rural Electrification Administration	51,927.19	
Department of Commerce:		
Secretary's office	406,008.00	
Patent Office	948,347.03	
Department of the Interior	259,043.87	
Geological Survey	330,085.89	
Department of Justice	342,120.10	
Department of Labor	249,207.92	
Navy Department	506,710.92	
Department of State	185,324.71	
Treasury Department, Division of Printing	1,692,853.62	
War Department	469,825.63	
Department of Agriculture	879,295.86	
Library:		
Surgeon General's Office	20,616.49	
Office of Education	33,069.37	
Department of Agriculture	105,974.80	
Department of the Interior	602.68	
National Archives	806,687.49	
Department of Agriculture, Office of Information [1]	394,603.23	
Total libraries, printing, etc		$15,086,366.02
Cost of tax collection:		
Board of Tax Appeals [1]	$503,832.16	
Department of Justice, office of Attorney General: Tax Division	544,005.11	
Department of Treasury:		
Bureau of Customs: Collecting revenue from customs	20,527,209.23	
Bureau of Internal Revenue:		
Collecting revenue	58,529,034.96	
Additional income tax on railroads in Alaska	19,700.00	
Total tax collection		80,123,781.46
Judicial, law enforcement, crime prevention:		
U. S. Supreme Court:		
Salaries	$410,489.29	
Miscellaneous expenses	27,070.85	
Total, Federal courts, exclusive of Supreme Court [1]	8,875,845.61	
Department of Agriculture, office of Solicitor	219,444.43	
Department of the Interior, office of Solicitor	273,630.85	
Geological Survey, enforcement of Mineral Leasing Act	315,910.51	
Geological Survey, enforcement of Mineral Leasing Act, emergency expenditures	92,069.36	
Treasury Department, office of General Counsel	129,030.90	
War Department, office of Advocate General	105,925.30	
Department of Justice:		
Office of Attorney General:		
Office of Solicitor General	53,799.53	
Office of Assistant Solicitor General	47,661.70	
Office of Assistant to Attorney General	53,244.27	
Administrative Division	589,673.41	
Criminal Division	149,367.42	
Traveling expenses	822,451.32	
Contingent expenses	174,945.35	
Federal Bureau of Investigation	6,479,418.81	
Bureau of Prisons	242,181.76	
Protecting United States in customs matters	127,174.94	
Other [1]	9,378,661.62	
Penal and correctional institutions [1]	11,084,262.74	
Miscellaneous	320,247.31	
Total, judiciary, etc		39,972,507.28
Diplomacy, Territorial government and immigration:		
Department of the Interior:		
Office of the Secretary:		
Bureau of Insular Affairs	$62,340.98	
Division of Territories and Island Possessions	304,461.59	
U. S. High Commission to Philippine Islands [1]	154,836.00	
Government in the Territories [1]	16,926,634.28	

[1] Exclusive of items elsewhere classified.

TABLE 6.—*General Government—Expenditures, 1939*—Continued

Diplomacy, Territorial government and immigration—Continued.		
Department of Labor: Immigration and Naturalization Service	$9,776,856.14	
Department of State:		
Office of the Secretary:		
Contingent expenses	111,797.54	
Passport agencies	54,706.56	
Collecting and editing territorial papers	26,067.50	
Foreign intercourse	14,389,205.08	
Miscellaneous	164,422.58	
War Department: Panama Canal	9,801,887.72	
Total diplomacy, etc		$51,773,215.97
Miscellaneous:		
Civil Aeronautics Authority: Foreign service pay adjustment	$104.47	
Civil Service Commission: Certified claims	52.44	
Mineral Act of Oct. 5, 1918: Claims and judgments	146,187.55	
Temporary National Economic Committee	504,653.88	
Federal Security Agency: Claims and judgments	1,752.49	
Public Buildings Administration: Claims and judgments	1,162.29	
Other independent offices, unclassified	4,285.20	
Department of Agriculture, miscellaneous expenses	166,271.83	
Department of Agriculture, unclassified:		
Foreign service pay adjustment	22,208.99	
Claims for damages	12,142.48	
Judgment and claims	110,983.73	
Private relief acts	367,546.80	
Rural Electrification Administration [1]	2,192,644.90	
Farm Credit Administration:		
Supervision of Federal credit unions	$33,034.54	
Department of Commerce:		
Accident prevention conference	12,608.73	
Miscellaneous	17,198.94	
Department of the Interior:		
Division of Investigations	423,812.13	
Division of Investigations, emergency expenditures	171.59	
Contingent expenses	173,292.64	
Settlement of land claims	4,332.92	
Payment to States from receipts under Grazing Act	427,582.13	
Commission of Fine Arts	9,925.60	
Miscellaneous	156,721.60	
Department of Labor: Miscellaneous	44,771.40	
Treasury Department: Miscellaneous	270,713.43	
War Department:		
Corps of Engineers:		
Claims for damages	2,098.22	
Special deposit accounts	13,205.45	
Miscellaneous	209,744.94	
District of Columbia—Federal contribution	5,000,000.00	
Smithsonian Institution	1,274,850.99	
Army Medical Museum	9,569.12	
Tax refunds:		
Bureau of Internal Revenue	39,157,356.66	
Processing tax refund	12,004,543.01	
Bureau of Customs	16,678,803.38	
Total miscellaneous		79,454,334.10
Total general Government		1,873,819,101.41
Total Federal expenditures: General and special accounts		8,759,532,703.84

[1] Exclusive of items elsewhere classified.

Source: Computed from the Budget of the United States Government for the fiscal year ending June 30 1941, statement No. 2, pp. A21 to A85.

TABLE 7.—*Comparison of total Federal employees in executive branch December 1932 and December 1937*

Department or office	Totals 1932	Totals 1937	Percentage increase, 1937 over 1932
White House	45	45	0
EXECUTIVE DEPARTMENTS			
State	4,686	5,179	10.5
Treasury	52,043	68,091	30.8
War	49,101	89,055	81.4
Justice	8,987	8,274	−7.9
Post Office [1]	245,714	284,316	15.7
Navy	46,936	67,357	43.5
Interior	14,483	41,553	186.9
Agriculture	26,371	80,125	203.8
Commerce	17,816	17,600	−1.2
Labor	5,494	9,139	66.3

See footnotes at end of table.

TABLE 7.—*Comparison of total Federal employees in executive branch December 1932 and December 1937*—Continued

Department or office	Totals 1932	Totals 1937	Percentage increase, 1937 over 1932
INDEPENDENT OFFICES			
Alley Dwelling Authority		14	
American Battle Monuments Commission	35	98	180.0
Board of Governors, Federal Reserve Banks [2]	208	411	97.6
Board of Tax Appeals	145	125	−13.8
Unemployment Census		75	
Central Statistical Board		39	
Civil Service Commission	623	1,075	72.6
Civilian Conservation Corps		61	
Commodity Credit Corporation		81	
Electric Home and Farm Authority		84	
Employees Compensation Commission	176	439	149.4
Export-Import Bank		12	
Farm Credit Administration		3,573	
Federal Communications Commission (formerly Federal Radio Commission)	257	602	134.2
Federal Deposit Insurance Corporation		853	
Federal Emergency Administration of Public Works		4,491	
Federal Home Loan Bank Board	88	319	262.5
Federal Housing Administration		2,745	
Federal Power Commission	55	420	663.6
Federal Savings and Loan Insurance Corporation		49	
Federal Trade Commission	472	557	18.0
General Accounting Office	1,974	5,055	156.1
Golden Gate International Exposition Commission		11	
Government Printing Office	4,758	5,616	18.0
Great Lakes Exposition Commission		8	
Greater Texas and Pan-American Exposition Commission		16	
Home Owners' Loan Corporation		14,827	
Interstate Commerce Commission	2,311	2,327	.7
Maritime Commission [3]	666	1,058	58.9
National Advisory Committee for Aeronautics	309	461	49.2
National Archives		304	
National Capital Park and Planning Commission		25	
National Emergency Council		258	
National Labor Relations Board		695	
National Mediation Board		69	
National Resources Committee		276	
New York World's Fair Commission		11	
Panama Canal	9,888	10,651	7.7
Paris International Exposition Commission		17	
Prison Industries Reorganization Administration		24	
Railroad Administration	9	1	−88.9
Railroad Retirement Board		1,506	
Reconstruction Finance Corporation	1,948	2,633	35.2
Rural Electrification Administration		455	
Securities and Exchange Commission		1,094	
Smithsonian Institution	545	468	−14.1
Social Security Board		7,516	
Tariff Commission	307	302	−1.6
Tennessee Valley Authority		13,059	
Veterans' Administration	34,111	35,067	2.8
Works Progress Administration		22,735	
Bureau of Efficiency	43		
Alien Property Custodian	118		
Federal Board of Vocational Education	82		
Public Buildings and Parks, National Capital (transferred to Interior Department in 1936)	3,069		
Commission of Fine Arts	3	1	−66.7
War Finance Corporation	2		
Board of Mediation	24		
Federal Farm Board	233		
Geographic Board	3		
International Joint Commission	6	6	
International Boundary Commission, Canada	5	5	
International Boundary Commission, Mexico	29	29	
Inter-American High Commission	5	5	
Century of Progress	8		

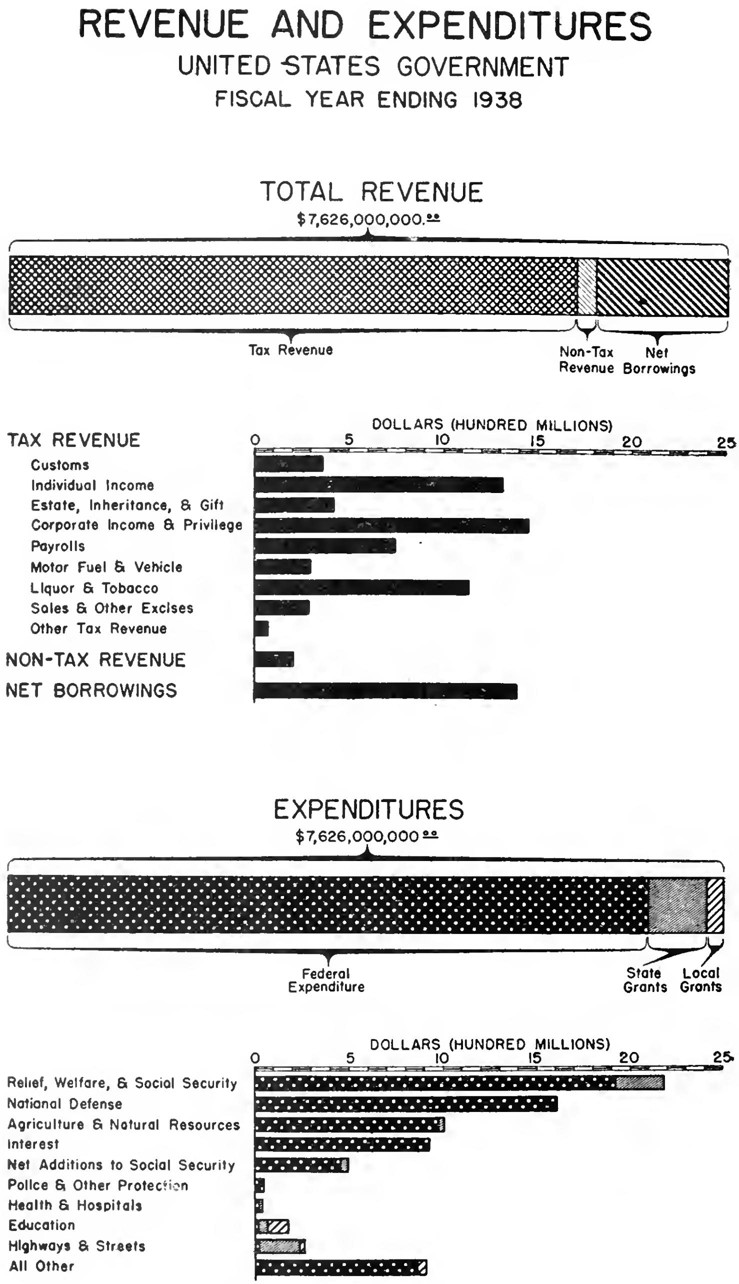
[1] 1932 figure includes 11,409 substitute clerks, first and second-class offices; 12,619 substitute city and village delivery carriers; 2,181 substitute railway postal clerks; 784 substitute motor-vehicle employees, and 876 substitute watchmen, laborers, etc. Does not include 13,200 clerks at third-class offices; 22,510 contract employees, 32,732 clerks at fourth-class offices who are employed and paid by the postmaster, nor 21,988 mail messengers. 1937 figure excludes 1,069 temporary employees in the District of Columbia, and 76,232 outside the District.

[2] In 1932 not subject to Civil Service Act.

[3] Formerly the U. S. Shipping Board.

Source: Figures from Civil Service Commission reports.

CHART 1



SOURCE: U. S. Treasury Dept., FEDERAL & ESTIMATED STATE & LOCAL REVENUES & EXPENDITURES FOR GENERAL GOVERNMENT, Fiscal Year, 1938

CHART 2

EXPENDITURES OF THE UNITED STATES GOVERNMENT

BY FUNCTION, FISCAL YEAR ENDING JUNE 30, 1939

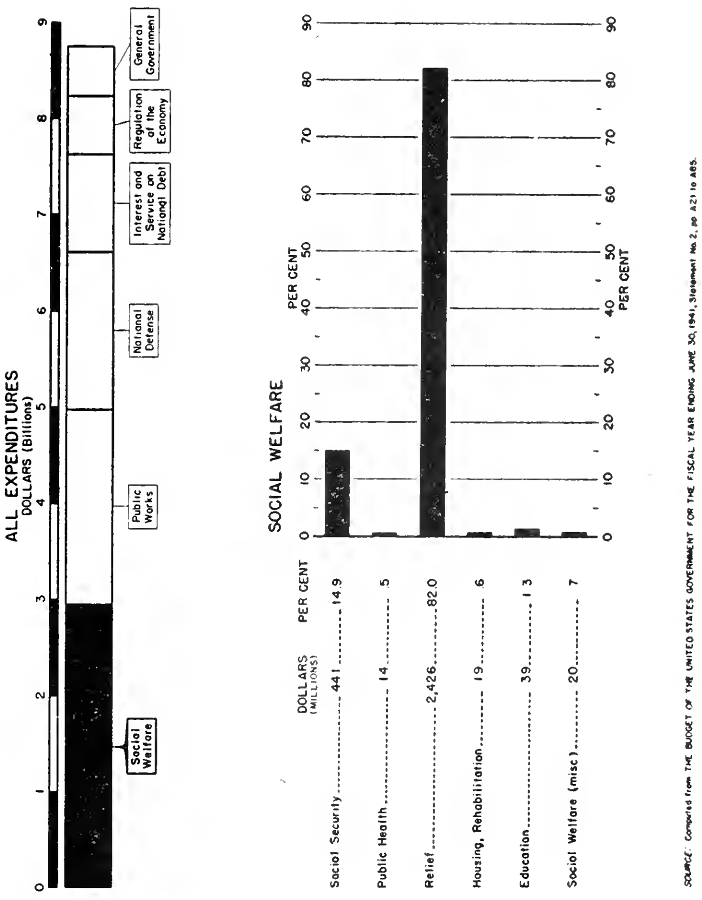
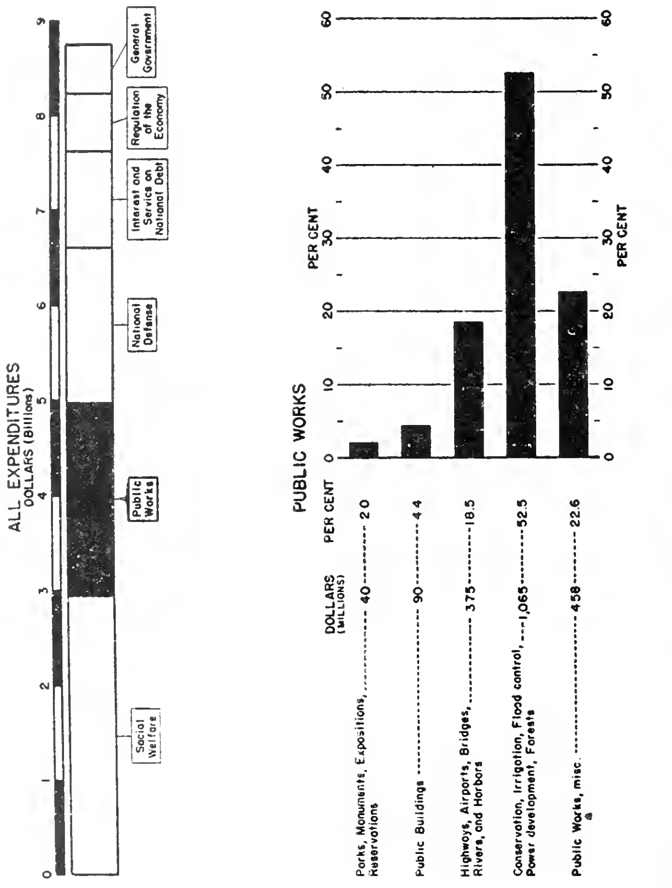


CHART 3

EXPENDITURES OF THE UNITED STATES GOVERNMENT

BY FUNCTION, FISCAL YEAR ENDING JUNE 30, 1939

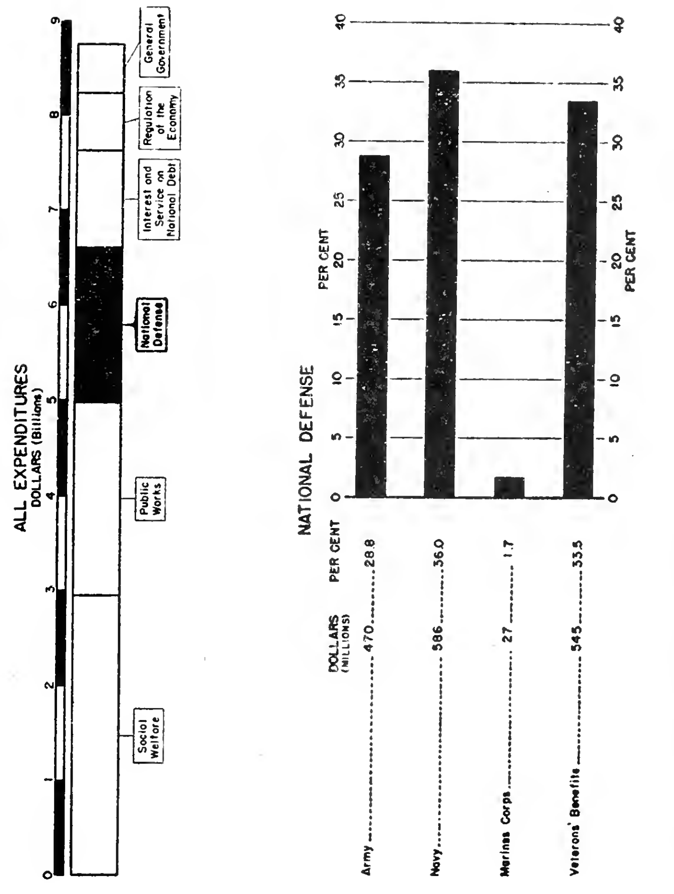


SOURCE: Compiled from THE BUDGET OF THE UNITED STATES GOVERNMENT FOR THE FISCAL YEAR ENDING JUNE 30, 1941, Statement No. 2, pp. A21 to A25.

CHART 4

EXPENDITURES OF THE UNITED STATES GOVERNMENT

BY FUNCTION, FISCAL YEAR ENDING JUNE 30, 1939

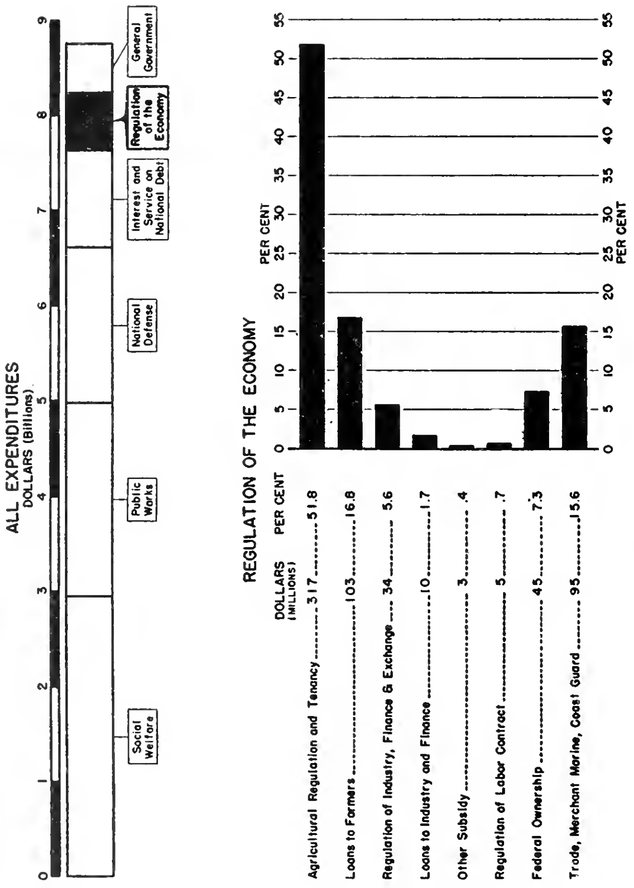


SOURCE: Compiled from THE BUDGET OF THE UNITED STATES GOVERNMENT FOR THE FISCAL YEAR ENDING JUNE 30, 1941, Statement No 2, pp A31 to A39.

CHART 5

EXPENDITURES OF THE UNITED STATES GOVERNMENT

BY FUNCTION, FISCAL YEAR ENDING JUNE 30, 1939

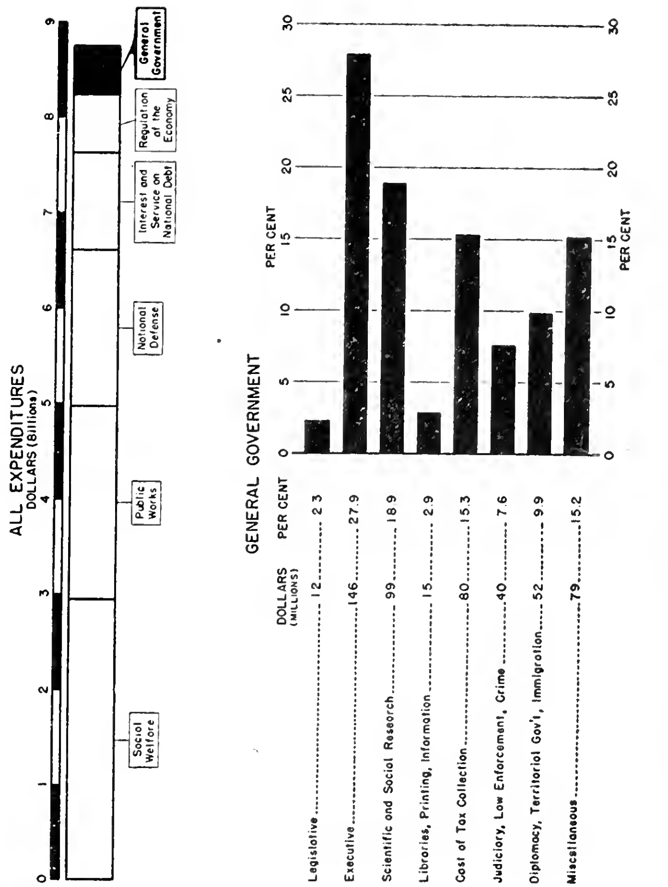


SOURCE: Computed from THE BUDGET OF THE UNITED STATES GOVERNMENT FOR THE FISCAL YEAR ENDING JUNE 30, 1941, Statement No. 2, pp. A21 to A85.

CHART 6

EXPENDITURES OF THE UNITED STATES GOVERNMENT

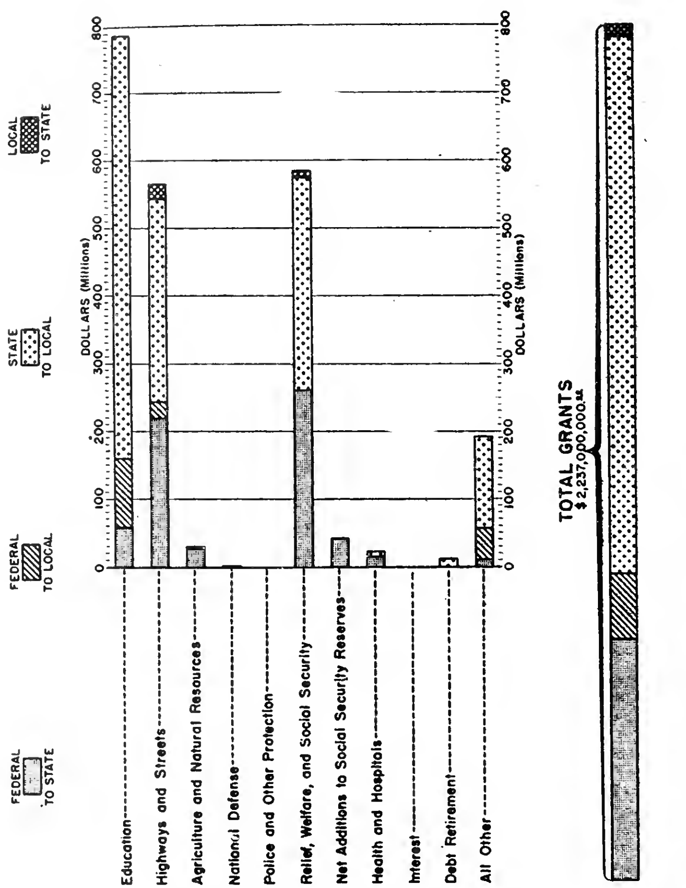
BY FUNCTION, FISCAL YEAR ENDING JUNE 30, 1939



SOURCE: Computed from THE BUDGET OF THE UNITED STATES GOVERNMENT FOR THE FISCAL YEAR ENDING JUNE 30, 1941, Statement No. 2, pp. A21 to A33.

CHART 7

INTERGOVERNMENTAL GRANTS BY LEVEL OF GOVERNMENT
UNITED STATES; FISCAL YEAR ENDING 1938



SOURCE: Adopted from THE BULLETIN OF THE TREASURY DEPARTMENT, August, 1939, p. 4.

APPENDIX C

SUPPLEMENTARY DATA ON GOVERNMENT REVENUES

TABLE 1.—*Individual income tax returns,[1] net income, and tax paid, 1929*

Net income class	Returns[1]		Net income reported	Percentage	Tax assessed	Percentage
	Number	Percentage				
Under $1,000	8,539	0.4	$4,852,249	(2)	$17,308	(2)
$1,000 to $2,000	479,103	19.5	834,600,352	4.1	553,418	0.1
$2,000 to $3,000	439,831	17.9	1,043,177,783	5.1	1,403,901	.1
$3,000 to $4,000	231,942	9.4	825,861,356	4.0	1,044,716	.1
$4,000 to $5,000	318,003	12.9	1,426,225,289	7.0	1,367,918	.1
$5,000 to $6,000	217,378	8.8	1,187,956,605	5.8	1,565,267	.2
$6,000 to $7,000	147,101	6.0	949,328,841	4.6	1,753,936	.2
$7,000 to $8,000	105,809	4.3	790,931,796	3.9	1,867,178	.2
$8,000 to $9,000	76,247	3.1	646,055,897	3.2	2,026,730	.2
$9,000 to $10,000	60,064	2.4	570,182,534	2.8	2,337,488	.2
$10,000 to $11,000	47,239	1.9	495,096,294	2.4	2,566,311	.3
$11,000 to $12,000	38,114	1.6	437,892,172	2.1	2,992,768	.3
$12,000 to $13,000	31,060	1.3	387,588,000	1.9	3,251,794	.3
$13,000 to $14,000	26,114	1.1	352,134,540	1.7	3,504,520	.4
$14,000 to $15,000	21,216	.9	307,441,145	1.5	3,603,092	.4
$15,000 to $20,000	70,176	2.9	1,208,669,860	5.9	20,958,558	2.1
$20,000 to $25,000	37,535	1.5	836,411,364	4.1	23,016,064	2.3
$25,000 to $30,000	23,081	.9	630,827,827	3.1	24,032,975	2.4
$30,000 to $40,000	26,363	1.1	908,544,285	4.4	46,965,282	4.7
$40,000 to $50,000	14,245	.6	635,086,014	3.1	42,905,940	4.3
$50,000 to $60,000	8,640	.4	473,282,923	2.3	39,296,170	3.9
$60,000 to $70,000	5,866	.2	379,687,785	1.9	35,269,856	3.5
$70,000 to $80,000	4,159	.2	310,912,627	1.6	31,871,455	3.2
$80,000 to $90,000	3,032	.1	257,065,545	1.3	28,115,170	2.8
$90,000 to $100,000	2,376	.1	225,527,120	1.1	26,260,873	2.6
$100,000 to $200,000	9,205	.4	1,257,097,287	6.1	168,234,907	16.8
$200,000 to $300,000	2,481	.1	600,848,528	2.9	90,546,064	9.0
$300,000 to $400,000	1,023	(2)	352,233,963	1.7	54,284,830	5.4
$400,000 to $500,000	618	(2)	275,994,926	1.4	43,050,832	4.3
$500,000 and over	1,489	.1	1,881,976,536	9.2	297,272,916	29.7
Total	2,458,049	100.0	20,493,491,443	100.0	1,001,938,147	100.0

[1] Excludes nontaxable returns.
[2] Less than 0.1 percent.

Source: Adapted from U. S. Treasury Department, Statistics of Income for 1929.

TABLE 2.—*Individual income tax returns,[1] net income, and tax paid, 1930*

Net income class	Returns: Number	Returns: Percentage	Net income reported	Percentage	Tax assessed	Percentage
Under $1,000	7,976	0.4	$4,443,024	(2)	$37,282	(2)
$1,000 to $2,000	412,834	21.7	767,759,194	5.6	1,269,089	0.3
$2,000 to $3,000	365,777	18.0	869,476,751	6.4	3,309,537	.7
$3,000 to $4,000	201,877	9.9	720,762,359	5.3	2,346,256	.5
$4,000 to $5,000	267,935	13.2	1,200,346,728	8.8	3,006,094	.6
$5,000 to $6,000	184,975	9.1	1,009,813,667	7.4	3,599,599	.8
$6,000 to $7,000	119,118	5.9	769,885,460	5.6	3,629,234	.8
$7,000 to $8,000	83,280	4.1	622,036,943	4.5	3,517,097	.7
$8,000 to $9,000	58,901	2.9	498,998,486	3.6	3,331,568	.7
$9,000 to $10,000	45,518	2.2	431,736,474	3.2	3,370,093	.7
$10,000 to $11,000	35,904	1.8	376,201,241	2.8	3,157,996	.7
$11,000 to $12,000	28,762	1.4	330,282,905	2.4	3,280,856	.7
$12,000 to $13,000	22,993	1.1	286,973,412	2.1	3,284,139	.7
$13,000 to $14,000	19,069	.9	257,269,370	1.9	3,250,792	.7
$14,000 to $15,000	15,897	.8	230,371,407	1.7	3,301,987	.7
$15,000 to $20,000	50,111	2.5	862,046,184	6.3	16,517,341	3.5
$20,000 to $25,000	26,026	1.3	579,605,728	4.2	16,767,466	3.5
$25,000 to $30,000	15,311	.8	418,382,902	3.1	16,337,084	3.4
$30,000 to $40,000	16,881	.8	580,720,892	4.2	30,199,576	6.3
$40,000 to $50,000	8,653	.4	384,515,663	2.8	26,171,562	5.5
$50,000 to $60,000	5,294	.3	289,228,566	2.1	22,930,144	4.8
$60,000 to $70,000	3,305	.2	213,558,059	1.6	19,523,639	4.1
$70,000 to $80,000	2,294	.1	171,480,407	1.3	17,339,391	3.6
$80,000 to $90,000	1,580	.1	133,946,863	1.0	14,800,538	3.1
$90,000 to $100,000	1,172	.1	110,825,860	.8	12,785,698	2.7
$100,000 to $200,000	4,281	.2	574,926,511	4.2	77,739,115	16.3
$200,000 to $300,000	901	(2)	218,260,092	1.6	33,471,503	7.0
$300,000 to $400,000	391	(2)	135,199,957	1.0	21,583,956	4.5
$400,000 to $500,000	161	(2)	71,931,165	.5	11,468,937	2.4
$500,000 and over	468	(2)	571,598,032	4.2	95,386,439	20.0
Total	2,037,645	100.0	13,692,584,305	100.0	476,714,808	100.0

[1] Excludes nontaxable returns.
[2] Less than 0.1 percent.

Source: Adapted from U. S. Treasury Department, Statistics of Income for 1930.

TABLE 3.—*Individual income tax returns,[1] net income, and tax paid, 1931*

Net income class	Returns: Number	Returns: Percentage	Net income reported	Percentage	Tax assessed	Percentage
Under $1,000	6,830	0.5	$3,719,683	(2)	$23,641	(2)
$1,000 to $2,000	352,796	23.1	610,653,586	6.6	943,098	.4
$2,000 to $3,000	277,212	18.2	659,006,122	7.1	2,466,248	1.0
$3,000 to $4,000	151,496	9.9	542,500,284	5.8	1,647,392	.7
$4,000 to $5,000	200,241	13.1	896,585,673	9.6	2,184,469	.9
$5,000 to $6,000	141,011	9.2	770,125,206	8.3	2,653,369	1.1
$6,000 to $7,000	89,188	5.9	576,180,891	6.2	2,664,040	1.1
$7,000 to $8,000	60,484	4.0	451,595,509	4.9	2,501,747	1.02
$8,000 to $9,000	41,799	2.7	354,166,180	3.8	2,305,185	.9
$9,000 to $10,000	31,413	2.1	297,852,666	3.2	2,283,041	.9
$10,000 to $11,000	25,963	1.7	272,021,712	2.9	2,154,808	.9
$11,000 to $12,000	20,457	1.3	234,886,345	2.5	2,209,332	.9
$12,000 to $13,000	16,335	1.1	203,833,206	2.2	2,189,957	.9
$13,000 to $14,000	13,192	.9	177,861,168	1.9	2,139,481	.9
$14,000 to $15,000	11,009	.7	159,471,711	1.7	2,151,163	.9
$15,000 to $20,000	33,910	2.2	582,619,907	6.3	10,583,898	4.3
$20,000 to $25,000	16,888	1.1	376,026,487	4.0	10,468,552	4.3
$25,000 to $30,000	9,342	.6	255,097,495	2.7	9,680,487	3.9
$30,000 to $40,000	9,972	.7	342,888,983	3.7	16,621,612	6.8
$40,000 to $50,000	4,994	.3	222,661,494	2.4	13,793,513	5.6
$50,000 to $60,000	3,043	.2	166,336,163	1.8	11,916,597	4.8
$60,000 to $70,000	1,896	.1	122,675,478	1.3	9,923,057	4.0
$70,000 to $80,000	1,337	.1	100,012,821	1.1	8,787,294	3.6
$80,000 to $90,000	825	.1	69,953,997	.8	6,854,830	2.8
$90,000 to $100,000	729	.1	69,070,680	.7	7,298,168	3.0
$100,000 to $200,000	2,250	.2	302,276,334	3.3	36,975,498	15.0
$200,000 to $300,000	440	(2)	106,380,953	1.1	14,952,949	6.1
$300,000 to $400,000	177	(2)	61,510,088	.7	8,805,559	3.6
$400,000 to $500,000	91	(2)	40,676,198	.4	6,604,623	2.7
$500,000 and over	226	(2)	268,370,573	2.9	42,342,669	17.2
Total	1,525,546	100.0	9,297,017,593	100.0	246,127,177	100.0

[1] Excludes nontaxable returns.
[2] Less than 0.1 percent.

Source: Adapted from U. S. Treasury Department, Statistics of Income for 1931.

TABLE 4.—*Individual income tax returns,[1] net income, and tax paid, 1932*

Net income class	Returns		Net income reported	Percentage	Tax assessed	Percentage
	Number	Percentage				
Under $1,000	8, 700	0. 5	$4, 679, 594	0. 1	$102, 827	(2)
$1,000 to $2,000	792, 899	41. 0	1, 127, 454, 592	14. 2	12, 254, 359	3. 7
$2,000 to $3,000	313, 812	16. 2	796, 874, 014	10. 1	9, 822, 223	3. 0
$3,000 to $4,000	311, 026	16. 1	1, 077, 163, 215	13. 6	10, 690, 784	3. 2
$4,000 to $5,000	164, 608	8. 5	731, 945, 668	9. 2	10, 203, 731	3. 2
$5,000 to $6,000	91, 162	4. 7	497, 998, 282	6. 3	8, 771, 801	2. 7
$6,000 to $7,000	60, 612	3. 1	391, 748, 038	5. 0	7, 598, 111	2. 3
$7,000 to $8,000	39, 809	2. 1	297, 169, 478	3. 8	6, 911, 337	2. 1
$8,000 to $9,000	27, 401	1. 4	232, 105, 243	2. 9	6, 333, 228	1. 9
$9,000 to $10,000	20, 638	1. 1	195, 720, 890	2. 5	6, 000, 422	1. 8
$10,000 to $11,000	15, 156	. 8	158, 862, 195	2. 0	5, 339, 721	1. 6
$11,000 to $12,000	11, 653	. 6	133, 929, 124	1. 7	4, 908, 191	1. 5
$12,000 to $13,000	9, 109	. 5	113, 691, 554	1. 4	4, 422, 365	1. 3
$13,000 to $14,000	7, 562	. 4	101, 996, 941	1. 3	4, 259, 473	1. 3
$14,000 to $15,000	6, 014	. 3	87, 093, 749	1. 1	3. 858, 915	1. 2
$15,000 to $20,000	19, 169	1. 0	329. 512, 194	4. 2	14, 897, 433	4. 5
$20,000 to $25,000	10, 547	. 5	235, 312, 187	3. 0	12, 463, 919	3. 8
$25,000 to $30,000	6, 665	. 3	181, 778, 274	2. 3	10, 693, 998	3. 2
$30,000 to $40,000	7, 769	. 4	267, 211, 998	3. 4	17, 999, 047	5. 5
$40,000 to $50,000	4, 056	. 2	180, 648, 316	2. 3	14, 852, 849	4. 5
$50,000 to $60,000	2, 393	. 1	130, 312, 964	1. 7	12, 148, 179	3. 7
$60,000 to $70,000	1, 474	. 1	95, 299, 127	1. 2	10, 820, 624	3. 3
$70,000 to $80,000	938	. 1	70, 077, 703	. 9	9, 181, 121	2. 8
$80,000 to $90,000	660	(2)	56, 066, 829	. 7	8, 539, 407	2. 6
$90,000 to $100,000	437	(2)	41, 449, 410	. 5	6, 460, 583	2. 0
$100,000 to $200,000	1, 351	1	180, 811, 831	2. 3	40, 528, 628	12. 2
$200,000 to $300,000	239	(2)	57, 091, 955	. 7	15, 852, 351	4. 8
$300,000 to $400,000	99	(2)	34, 263, 351	. 4	11, 950, 110	3. 6
$400,000 to $500,000	41	(2)	18, 205, 352	. 2	6, 604, 038	2. 0
$500,000 and over	106	(2)	93, 113, 787	1. 2	35, 492, 526	10. 8
Total	1, 936, 095	100. 0	7, 919, 587, 855	100. 0	329, 962, 311	100. 0

[1] Excludes nontaxable returns.
[2] Less than 0.1 percent.

Source: Adapted from U. S. Treasury Department, Statistics of Income for 1932.

TABLE 5.—*Individual income tax returns,[1] net income, and tax paid, 1933*

Net income class	Returns		Net income reported	Percentage	Tax assessed	Percentage
	Number	Percentage				
Under $1,000	9, 167	0. 5	$4, 909, 341	0. 1	$97, 155	(2)
$1,000 to $2,000	737, 651	42. 2	1, 020, 512, 121	13. 8	10, 344, 707	2. 8
$2,000 to $3,000	265, 801	15. 2	678, 879, 105	9. 2	7, 709, 920	2. 1
$3,000 to $4,000	267, 760	15. 3	926, 385, 335	12. 6	9, 421, 818	2. 5
$4,000 to $5,000	142, 860	8. 2	634, 811, 568	8. 6	8, 975, 493	2. 4
$5,000 to $6,000	85, 417	4. 9	466, 545, 892	6. 3	8, 449, 038	2. 3
$6,000 to $7,000	55, 602	3. 2	359, 438, 117	4. 9	7, 389, 587	2. 0
$7,000 to $8,000	36, [illegible]	2. 1	275, 126, 577	3. 7	6, 851, 807	1. 8
$8,000 to $9,000	25, 334	1. 5	214, 704, 486	2. 9	6, 330, 372	1. 7
$9,000 to $10,000	19, 155	1. 1	181, 705, 488	2. 5	6, 056, 543	1. 6
$10,000 to $11,000	14, 082	. 8	147, 564, 774	2. 0	5, 406, 920	1. 4
$11,000 to $12,000	11, 091	. 6	127, 355, 343	1. 7	5, 121, 157	1. 4
$12,000 to $13,000	8, 661	. 5	108, 116, 073	1. 5	4, 693, 116	1. 3
$13,000 to $14,000	7, 199	. 4	97, 090, 472	1. 3	4, 438, 710	1. 2
$14,000 to $15,000	6, 000	. 3	86, 898, 377	1. 2	4, 225, 474	1. 1
$15,000 to $20,000	18, 281	1. 1	314, 864, 071	4. 3	16, 633, 106	4. 5
$20,000 to $25,000	10, 329	. 6	230, 196, 680	3. 1	14, 458, 054	3. 9
$25,000 to $30,000	6, 663	. 4	182, 207, 780	2. 5	12, 603, 898	3. 4
$30,000 to $40,000	7, 594	1. 3	262, 358, 726	3. 6	21, 536. 528	5. 8
$40,000 to $50,000	4, 166	. 2	185, 438, 623	2. 5	18, 214, 650	4. 9
$50,000 to $60,000	2, 434	. 1	132, 772, 640	1. 8	15, 198, 790	4. 1
$60,000 to $70,000	1, 551	. 1	100, 343, 290	1. 4	13, 165, 687	3. 5
$70,000 to $80,000	917	. 1	68, 446, 005	. 9	10, 526, 967	2. 8
$80,000 to $90,000	652	(2)	55, 295, 324	. 8	9, 753, 636	2. 6
$90,000 to $100,000	467	(2)	44, 191, 960	. 6	8, 846, 153	2. 6
$100,000 to $200,000	1, 490	. 1	198, 918, 024	2. 7	49, 723, 838	13. 3
$200,000 to $300,000	289	(2)	69, 455, 698	. 9	21, 057, 348	5. 6
$300,000 to $400,000	86	(2)	30, 099, 524	. 4	9, 642, 709	2. 6
$400,000 to $500,000	55	(2)	24, 471, 169	. 3	8, 267, 419	2. 2
$500,000 and over	131	(2)	143. 557, 769	2. 0	48, 979, 864	13. 1
Total	1, 747, 740	100. 0	7, 372, 660, 352	100. 0	374, 120, 469	100. 0

[1] Excludes nontaxable returns.
[2] Less than 0.1 percent.

Source: Adapted from U. S. Treasury Department, Statistics of Income for 1933.

TABLE 6.—*Individual income tax returns,*[1] *net income, and tax paid, 1934*

Net income class	Returns		Net income reported	Percentage	Tax assessed	Percentage
	Number	Percentage				
Under $1,000	10,059	0.6	$5,458,724	0.1	$111,075	(2)
$1,000 to $2,000	681,628	38.0	1,009,900,021	12.1	8,659,129	1.7
$2,000 to $3,000	225,767	12.6	557,720,251	6.7	7,566,786	1.5
$3,000 to $4,000	266,149	14.8	931,179,181	11.2	8,270,197	1.6
$4,000 to $5,000	196,396	10.9	875,039,489	10.5	10,078,416	2.0
$5,000 to $6,000	107,136	6.0	585,115,977	7.0	9,539,352	1.9
$6,000 to $7,000	72,405	4.0	468,140,846	5.6	8,605,543	1.7
$7,000 to $8,000	47,342	2.6	353,497,664	4.2	7,947,122	1.6
$8,000 to $9,000	32,617	1.8	276,395,908	3.3	8,045,990	1.7
$9,000 to $10,000	24,598	1.4	233,237,289	2.8	8,948,123	1.8
$10,000 to $11,000	18,650	1.0	195,364,429	2.3	7,255,493	1.4
$11,000 to $12,000	14,733	.8	169,121,543	2.0	6,959,421	1.4
$12,000 to $13,000	11,884	.7	148,327,048	1.8	6,654,511	1.3
$13,000 to $14,000	9,768	.5	131,717,320	1.6	6,347,649	1.2
$14,000 to $15,000	8,333	.5	120,728,528	1.5	6,207,137	1.2
$15,000 to $20,000	25,968	1.5	446,546,040	5.4	27,066,834	5.3
$20,000 to $25,000	13,556	.8	301,786,841	3.6	23,468,704	4.6
$25,000 to $30,000	7,971	.4	217,590,074	2.6	20,986,275	4.1
$30,000 to $40,000	8,534	.5	293,351,850	3.5	34,920,228	6.8
$40,000 to $50,000	4,426	.3	197,588,193	2.4	29,000,197	5.7
$50,000 to $60,000	2,480	.1	135,138,528	1.6	23,286,231	4.6
$60,000 to $70,000	1,527	.1	98,806,341	1.2	19,526,559	3.8
$70,000 to $80,000	934	.1	69,828,785	.8	15,656,449	3.1
$80,000 to $90,000	689	(2)	58,420,947	.7	14,489,260	2.8
$90,000 to $100,000	463	(2)	43,781,504	.5	11,833,499	2.3
$100,000 to $200,000	1,346	.1	180,086,534	2.2	62,269,481	12.2
$200,000 to $300,000	326	(2)	78,617,274	.9	33,891,044	6.6
$300,000 to $400,000	77	(2)	26,425,109	.3	12,331,034	2.4
$400,000 to $500,000	39	(2)	17,407,233	.2	8,522,792	1.7
$500,000 and over	119	(2)	117,238,820	1.4	62,955,247	12.3
Total	1,795,920	100.0	8,343,558,291	100.0	511,399,778	100.0

[1] Excludes nontaxable returns.
[2] Less than 0.1 percent.

Source: Adapted from U. S. Treasury Department, Statistics of Income for 1934, pt. I.

TABLE 7.—*Individual income-tax returns,*[1] *net income, and tax paid, 1935*

Net income class	Returns		Net income reported	Percentage	Tax assessed	Percentage
	Number	Percentage				
Under $1,000	10,684	0.5	$5,804,301	0.1	$124,619	(2)
$1,000 to $2,000	782,266	37.1	1,165,429,819	11.6	10,058,471	1.5
$2,000 to $3,000	282,828	13.6	698,266,187	7.0	9,310,839	1.4
$3,000 to $4,000	320,148	15.2	1,119,035,485	11.2	9,505,603	1.5
$4,000 to $5,000	221,819	10.5	988,041,750	9.9	11,232,276	1.7
$5,000 to $6,000	125,672	6.0	686,589,069	6.8	10,740,592	1.6
$6,000 to $7,000	84,618	4.0	546,931,190	5.5	10,043,721	1.5
$7,000 to $8,000	55,249	2.6	412,520,999	4.1	9,507,834	1.5
$8,000 to $9,000	38,546	1.8	326,653,405	3.3	9,296,744	1.4
$9,000 to $10,000	28,787	1.4	272,841,665	2.7	9,139,366	1.4
$10,000 to $11,000	22,320	1.1	233,830,850	2.3	9,785,190	1.5
$11,000 to $12,000	17,574	.8	201,744,979	2.0	8,431,734	1.3
$12,000 to $13,000	13,995	.7	174,654,985	1.7	7,938,471	1.2
$13,000 to $14,000	11,811	.6	159,202,389	1.6	7,793,938	1.2
$14,000 to $15,000	9,797	.5	141,941,600	1.4	7,445,010	1.1
$15,000 to $20,000	31,477	1.5	541,397,650	5.4	33,229,759	5.1
$20,000 to $25,000	16,590	.8	369,499,032	3.7	29,130,046	4.4
$25,000 to $30,000	9,763	.5	266,684,544	2.7	25,938,816	4.0
$30,000 to $40,000	10,690	.5	367,580,930	3.7	44,235,716	6.7
$40,000 to $50,000	5,576	.3	248,043,638	2.5	36,495,908	5.6
$50,000 to $60,000	3,256	.2	177,663,517	1.8	30,822,727	4.7
$60,000 to $70,000	1,948	.1	125,891,921	1.3	25,074,966	3.8
$70,000 to $80,000	1,319	.1	98,453,227	1.0	22,110,409	3.4
$80,000 to $90,000	923	(2)	78,050,598	.8	19,427,062	3.0
$90,000 to $100,000	587	(2)	55,712,980	.6	15,380,772	2.3
$100,000 to $200,000	1,918	.1	256,432,589	2.6	89,154,455	13.6
$200,000 to $300,000	373	(2)	89,857,625	.9	39,016,787	5.9
$300,000 to $400,000	132	(2)	45,103,350	.5	21,191,967	3.2
$400,000 to $500,000	74	(2)	32,803,995	.3	16,053,008	2.4
$500,000 and over	150	(2)	147,441,406	1.5	79,822,537	12.1
Total	2,110,890	100.0	10,034,105,975	100.0	657,439,343	100.0

[1] Excludes nontaxable returns.
[2] Less than 0.1 percent.

Source: Adapted from U. S. Treasury Department, Statistics of Income for 1935, pt. I.

TABLE 8.—*Individual income-tax returns,[1] net income, and tax paid, 1936*

Net income class	Returns: Number	Returns: Percentage	Net income reported	Percentage	Tax assessed	Percentage
Under $1,000	19, 329	0. 7	$10, 251, 949	0. 1	$330, 562	(2)
$1,000 to $2,000	1, 050, 505	36. 7	1, 556, 997, 826	11. 0	14, 010, 268	1. 2
$2,000 to $3,000	396, 634	13. 9	984, 433, 618	6. 9	13, 987, 745	1. 2
$3,000 to $4,000	437, 666	15. 3	1, 525, 721, 554	10. 7	15, 020, 868	1. 3
$4,000 to $5,000	280, 712	9. 8	1, 250, 810, 543	8. 8	17, 210, 720	1. 1
$5,000 to $6,000	166, 221	5. 8	908, 134, 127	6. 4	16, 933, 441	1. 4
$6,000 to $7,000	110, 009	3. 8	711, 155, 303	5. 0	16, 427, 217	1. 4
$7,000 to $8,000	73, 174	2. 6	546, 367, 633	3. 8	15, 697, 366	1. 3
$8,000 to $9,000	51, 708	1. 8	438, 156, 725	3. 9	15, 328, 481	1. 3
$9,000 to $10,000	39, 025	1. 4	369, 986, 375	2. 6	14, 982, 647	1. 2
$10,000 to $11,000	30, 454	1. 1	319, 108, 933	2. 2	14, 479, 098	1. 2
$11,000 to $12,000	24, 369	9	279, 845, 661	2. 0	14, 019, 470	1. 2
$12,000 to $13,000	20, 101	. 7	250, 881, 559	1. 8	13, 609, 307	1. 1
$13,000 to $14,000	16, 462	6	222, 042, 219	1. 6	12, 922, 196	1. 1
$14,000 to $15,000	14, 196	. 5	205, 648, 315	1. 5	12, 725, 015	1. 1
$15,000 to $20,000	45, 978	1. 6	792, 093, 001	5. 6	57, 055, 979	4. 7
$20,000 to $25,000	25, 089	. 9	559, 072, 996	3. 9	50, 802, 056	1. 1
$25,000 to $30,000	14, 996	. 5	409, 563, 436	2. 9	45, 419, 316	3. 7
$30,000 to $40,000	17, 110	6	589, 817, 377	4. 2	80, 002, 806	6. 6
$40,000 to $50,000	9, 001	. 3	401, 112, 049	2. 8	65, 916, 538	5. 4
$50,000 to $60,000	5, 364	. 2	293, 063, 841	2. 1	56, 266, 595	4. 6
$60,000 to $70,000	3, 406	. 1	220, 083, 726	1. 6	48, 598, 391	4. 0
$70,000 to $80,000	2, 174	1	162, 205, 465	1. 1	40, 733, 712	3. 4
$80,000 to $90,000	1, 539	. 1	130, 393, 989	. 9	36, 835, 176	3. 0
$90,000 to $100,000	1, 137	(2)	107, 771, 028	8	33, 611, 146	2. 8
$100,000 to $200,000	3, 515	. 1	467, 356, 254	3. 3	186, 511, 577	15. 4
$200,000 to $300,000	635	(2)	151, 851, 992	1. 1	77, 025, 686	6. 3
$300,000 to $400,000	219	(2)	75, 135, 964	. 5	42, 141, 177	3. 5
$400,000 to $500,000	111	(2)	49, 387, 253	. 4	29, 329, 033	2. 4
$500,000 and over	239	(2)	230, 403, 436	1. 6	156, 083, 274	12. 9
Total	2, 861, 108	100. 0	14, 218, 853, 550	100. 0	1, 214, 016, 803	100. 0

[1] Excludes nontaxable returns.
[2] Less than 0.1 percent.

Source: Adapted from U. S. Treasury Department, Statistics of Income for 1936, pt. 1.

TABLE 9.—*Corporate net income, tax paid, and amount remaining after tax, 1929*[1] *(by net income classes)*

Net income classes	Returns: Number	Returns: Percent of total	Net income: Amount	Net income: Percent of total	Tax: Amount	Tax: Percent of total	Income remaining after tax: Amount	Income remaining after tax: Percent of net income
Under $1,000	69, 456	25. 8	$29, 280, 602	0. 2	$8, 258	(2)	$29, 272, 344	99. 97
$1,000 to $2,000	41, 292	15. 3	61, 040, 738	. 5	12, 051	(2)	61, 028, 687	99. 98
$2,000 to $3,000	37, 675	14. 0	94, 817, 771	. 8	27, 871	(2)	94, 789, 900	99. 97
$3,000 to $4,000	19, 458	7. 2	66, 919, 938	. 6	871, 125	0. 1	66, 048, 813	98. 70
$4,000 to $5,000	11, 795	4. 4	52, 715, 622	5	1, 668, 867	. 1	51, 046, 755	96. 83
$5,000 to $10,000	29, 627	11. 0	209, 763, 890	1. 8	11, 616, 751	1. 0	198, 147, 139	94. 46
$10,000 to $15,000	13, 399	5. 0	164, 277, 385	1. 4	12, 097, 585	1. 0	152, 179, 800	92. 64
$15,000 to $20,000	8, 424	3. 1	145, 907, 739	1. 3	12, 059, 108	1. 0	133, 848, 631	91. 74
$20,000 to $25,000	6, 641	2. 5	149, 630, 071	1. 3	13, 233, 873	1. 1	136, 396, 198	91. 16
$25,000 to $50,000	12, 397	4. 6	141, 614, 858	3. 3	44, 889, 497	3. 8	396, 725, 361	89. 84
$50,000 to $100,000	8, 316	3. 1	582, 967, 689	5. 0	60, 947, 504	5. 1	522, 020, 185	89. 55
$100,000 to $250,000	5, 974	2. 2	923, 943, 997	7. 9	98, 151, 122	8. 2	825, 792, 875	89. 38
$250,000 to $500,000	2, 283	. 8	796, 186, 327	6. 8	85, 584, 561	7. 2	710, 601, 766	89. 25
$500,000 to $1,000,000	1, 344	. 5	932, 109, 935	8. 0	100, 591, 491	8. 4	831, 518, 444	89. 21
$1,000,000 to $5,000,000	1, 049	. 4	2, 116, 780, 261	18. 2	227, 989, 693	19. 1	1, 888, 790, 568	89. 23
$5,000,000 and over	300	. 1	4, 885, 929, 179	41. 9	523, 686, 475	43. 9	4, 362, 242, 704	89. 28
Total	269, 430	100. 0	11, 653, 886, 002	100. 0	1, 193, 435, 832	100. 0	10, 460, 450, 170	89. 76

[1] Excludes returns of corporations showing deficits.
[2] Less than 0.1 percent.

Source: Adapted from U. S. Treasury Department, Statistics of Income for 1929, p. 23.

TABLE 10.—*Corporate net income, tax paid, and amount remaining after tax, 1930* [1] *(by net income classes)*

Net income classes	Returns		Net income		Tax		Income remaining after tax	
	Number	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of net income
Under $1,000	71,322	32.2	$29,630,512	0.5	$7,348	------	$29,623,164	99.98
$1,000 to $2,000	37,881	17.1	55,738,241	.9	11,082	------	55,727,159	99.98
$2,000 to $3,000	32,798	14.8	82,605,299	1.3	17,473	------	82,587,826	99.98
$3,000 to $4,000	14,732	6.7	50,568,680	.8	688,008	0.1	49,880,672	98.64
$4,000 to $5,000	8,367	3.8	37,487,774	.6	1,288,790	.2	36,198,984	96.56
$5,000 to $10,000	19,760	8.8	139,686,963	2.2	8,457,050	1.2	131,229,913	93.95
$10,000 to $15,000	8,955	4.1	109,550,914	1.7	8,894,387	1.3	100,656,527	91.88
$15,000 to $20,000	5,392	2.4	93,270,697	1.5	8,395,741	1.2	84,874,956	91.00
$20,000 to $25,000	3,992	1.8	89,664,085	1.4	8,644,691	1.2	81,019,394	90.36
$25,000 to $50,000	7,372	3.3	263,844,152	4.1	29,260,764	4.1	233,583,388	88.87
$50,000 to $100,000	4,905	2.2	341,577,550	5.3	38,924,314	5.5	302,653,236	88.60
$100,000 to $250,000	3,260	1.5	499,648,006	7.7	57,554,289	8.1	442,093,717	88.48
$250,000 to $500,000	1,259	.6	438,512,275	6.8	51,140,976	7.1	387,371,299	88.34
$500,000 to $1,000,000	689	.3	481,838,374	7.5	56,126,693	7.9	425,711,681	88.35
$1,000,000 to $5,000,000	576	.3	1,177,947,991	18.3	139,140,954	19.5	1,038,807,037	88.19
$5,000,000 and over	160	.1	2,538,241,197	39.4	303,151,340	42.6	2,235,089,857	88.06
Total	221,420	100.0	6,428,812,710	100.0	711,703,900	100.0	5,717,108,810	88.93

[1] Excludes returns of corporations showing deficits.

Source: Adapted from U. S. Treasury Department, Statistics of Income for 1930, p. 25.

TABLE 11.—*Corporate net income, tax paid, and amount remaining after tax, 1931* [1] *(by net-income classes)*

Net-income classes	Returns		Net income		Tax		Income remaining after tax	
	Number	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of net income
Under $1,000	70,168	39.9	$27,836,104	0.8	$106,758	(2)	$27,729,346	99.6
$1,000 to $2,000	31,702	18.0	46,328,242	1.3	188,991	(2)	46,139,251	99.6
$2,000 to $3,000	24,312	13.8	60,781,731	1.7	178,773	(2)	60,602,958	99.7
$3,000 to $4,000	9,703	5.5	33,282,497	.9	542,994	0.1	32,739,503	98.4
$4,000 to $5,000	5,481	3.1	24,518,853	.7	863,974	.2	23,654,879	96.5
$5,000 to $10,000	12,813	7.3	90,197,872	2.5	5,433,071	1.4	84,764,801	94.0
$10,000 to $15,000	5,321	3.0	65,292,089	1.8	5,160,721	1.3	60,131,368	92.1
$15,000 to $20,000	3,301	1.9	57,080,219	1.6	5,019,508	1.3	52,060,711	91.2
$20,000 to $25,000	2,440	1.4	54,847,179	1.4	5,165,397	1.3	49,681,782	90.6
$25,000 to $50,000	4,450	2.5	157,445,419	4.3	16,999,632	4.3	140,445,787	89.2
$50,000 to $100,000	2,755	1.6	192,197,760	5.2	21,470,123	5.4	170,727,637	88.6
$100,000 to $250,000	1,941	1.1	296,252,023	8.0	33,297,754	8.3	262,954,269	88.8
$250,000 to $500,000	729	.4	252,021,220	6.7	29,059,616	7.3	222,961,604	88.5
$500,000 to $1,000,000	373	.2	265,231,610	7.2	30,206,118	7.5	235,025,492	88.6
$1,000,000 to $5,000,000	321	.2	647,196,669	17.5	75,821,494	19.0	571,375,175	88.3
$5,000,000 and over	88	.1	1,412,858,287	38.4	169,478,779	42.5	1,243,379,508	88.0
Total	175,898	100.0	3,683,367,774	100.0	398,993,703	100.0	3,284,374,071	89.2

[1] Excludes returns of corporations showing deficits.
[2] Less than 0.1 percent.

Source: Adapted from U. S. Treasury Department, Statistics of Income, 1931, p. 24.

TABLE 12.—*Corporate net income, tax paid, and amount remaining after tax, 1932*[1] *(by net income classes)*

Net income classes	Returns		Net income		Tax		Income remaining after tax	
	Number	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of net income
Under $1,000	42,070	50.9	$13,121,089	0.6	$1,366,431	0.5	$11,754,658	89.6
$1,000 to $2,000	10,403	12.6	14,912,477	.7	1,549,086	.5	13,363,391	89.6
$2,000 to $3,000	5,734	6.9	14,080,598	.7	1,507,754	.5	12,572,844	89.3
$3,000 to $4,000	3,321	4.0	11,505,577	.5	1,258,311	.4	10,247,266	89.1
$4,000 to $5,000	2,499	3.0	11,196,103	.5	1,254,847	.4	9,941,256	88.8
$5,000 to $10,000	6,259	7.6	44,504,963	2.1	5,137,291	1.8	39,367,672	88.5
$10,000 to $15,000	2,962	3.6	36,271,214	1.7	4,307,790	1.5	31,963,424	88.1
$15,000 to $20,000	1,796	2.2	31,157,758	1.5	3,805,869	1.3	27,351,889	87.8
$20,000 to $25,000	1,172	1.4	26,212,733	1.2	3,230,134	1.1	22,982,599	87.7
$25,000 to $50,000	2,700	3.2	94,912,533	4.4	11,906,077	4.1	83,006,456	87.5
$50,000 to $100,000	1,623	2.0	113,642,596	5.3	14,554,568	5.1	99,088,028	87.2
$100,000 to $250,000	1,159	1.4	176,675,539	8.2	23,719,038	8.3	152,956,501	86.6
$250,000 to $500,000	429	.5	150,685,617	7.0	20,198,428	7.1	130,487,189	86.6
$500,000 to $1,000,000	235	.3	165,567,152	7.7	21,969,501	7.7	143,597,651	86.7
$1,000,000 to $5,000,000	225	.3	464,892,154	21.6	62,455,111	21.8	402,437,043	86.6
$5,000,000 and over	59	.1	783,774,716	36.4	107,814,119	37.7	675,960,597	86.4
Total	82,646	100.0	2,153,112,819	100.0	286,034,355	100.0	1,867,078,464	86.7

[1] Excludes returns of corporations showing deficits.

Source: Adapted from U. S. Treasury Department, Statistics of Income for 1932, p. 25.

TABLE 13.—*Corporate net income, taxes paid, and amount remaining after tax,*[1] *1933 (by net income classes)*

[Dollar figures in thousands]

Net income classes	Returns		Net income		Total tax[2]		Income remaining after tax	
	Number	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of net income
Under $1,000	52,278	47.6	$16,350	0.6	$2,305	0.5	$14,045	85.9
$1,000 to $2,000	13,558	12.4	19,559	.7	2,737	.7	16,822	86.0
$2,000 to $3,000	7,481	6.8	18,359	.6	2,601	.6	15,758	85.8
$3,000 to $4,000	4,783	4.4	16,574	.6	2,332	.6	14,242	85.9
$4,000 to $5,000	3,404	3.1	15,239	.5	2,148	.5	13,091	85.9
$5,000 to $10,000	9,143	8.3	65,189	2.2	9,216	2.2	55,973	85.9
$10,000 to $15,000	4,324	3.9	52,927	1.8	7,519	1.7	45,408	85.8
$15,000 to $20,000	2,634	2.4	45,569	1.5	6,471	1.5	39,098	85.8
$20,000 to $25,000	1,836	1.7	41,121	1.4	5,827	1.4	35,294	85.8
$25,000 to $50,000	4,245	3.8	149,596	5.0	21,240	5.0	128,356	85.8
$50,000 to $100,000	2,638	2.4	184,378	6.2	26,135	6.2	158,243	85.8
$100,000 to $250,000	1,958	1.8	302,402	10.1	42,994	10.2	259,408	85.8
$250,000 to $500,000	732	.7	254,594	8.5	36,064	8.5	218,530	85.8
$500,000 to $1,000,000	385	.4	263,853	8.8	37,324	8.8	226,529	85.9
$1,000,000 to $5,000,000	318	.3	636,480	21.3	89,990	21.3	546,490	85.9
$5,000,000 and over	69	.1	903,781	30.3	128,166	30.3	775,615	85.8
Total	109,786	100.0	2,985,971	100.0	423,069	100.0	2,562,902	85.8

[1] Excludes returns of corporations showing deficits.
[2] Includes excess-profits tax (effective June 30, 1933).

Source: Adapted from U. S. Treasury Department, Statistics of Income for 1933, p. 25.

TABLE 14.—*Corporate net income, tax paid, and amount remaining after tax, 1934*[1] *(by net-income classes)*

[Dollar figures in thousands]

Net income classes	Returns		Net income		Income tax	
	Number	Percent of total	Amount	Percent of total	Amount	Percent of total
Under $1,000	63,212	43.6	$20,568	0.5	$2,826	0.5
$1,000 to $2,000	17,836	12.3	25,680	.6	3,526	.6
$2,000 to $3,000	10,245	7.1	25,224	.6	3,464	.6
$3,000 to $4,000	6,752	4.7	23,469	.6	3,224	.5
$4,000 to $5,000	4,986	3.4	22,293	.5	3,062	.5
$5,000 to $10,000	13,191	9.1	93,873	2.2	12,893	2.2
$10,000 to $15,000	6,553	4.5	80,315	1.9	11,022	1.9
$15,000 to $20,000	3,907	2.7	67,669	1.6	9,286	1.6
$20,000 to $25,000	2,697	1.8	60,512	1.4	8,313	1.4
$25,000 to $50,000	6,425	4.4	226,765	5.3	31,154	5.3
$50,000 to $100,000	4,080	2.8	286,729	6.6	39,374	6.7
$100,000 to $250,000	2,946	2.0	457,010	10.7	62,844	10.7
$250,000 to $500,000	1,092	.8	379,419	8.9	52,163	8.9
$500,000 to $1,000,000	599	.4	424,504	9.9	58,396	9.9
$1,000,000 to $5,000,000	483	.3	943,413	22.1	130,028	22.1
$5,000,000 and over	97	.1	1,137,754	26.6	156,800	26.6
Excess-profits tax on returns showing no net income						
Total	145,101	100.0	4,275,197	100.0	588,375	100.0

Net income classes	Excess profits tax		Total tax		Net income remaining after tax	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of net income
Under $1,000	$44	0.6	$2,870	0.5	$17,698	86.0
$1,000 to $2,000	64	.8	3,590	.6	22,090	86.0
$2,000 to $3,000	86	1.1	3,550	.6	21,674	85.9
$3,000 to $4,000	85	1.1	3,309	.6	20,160	85.9
$4,000 to $5,000	88	1.2	3,150	.5	19,143	85.9
$5,000 to $10,000	372	4.8	13,265	2.2	80,608	85.9
$10,000 to $15,000	338	4.4	11,360	1.9	68,955	85.9
$15,000 to $20,000	274	3.6	9,560	1.6	58,109	85.9
$20,000 to $25,000	221	2.9	8,534	1.4	51,978	85.9
$25,000 to $50,000	845	11.0	31,999	5.4	194,766	85.9
$50,000 to $100,000	1,025	13.4	40,399	6.8	246,330	85.9
$100,000 to $250,000	1,321	17.2	64,165	10.8	392,845	86.0
$250,000 to $500,000	814	10.6	52,977	8.8	326,442	86.0
$500,000 to $1,000,000	669	8.7	59,065	9.9	365,439	86.1
$1,000,000 to $5,000,000	853	11.1	130,881	21.9	812,532	86.1
$5,000,000 and over	537	7.0	157,337	26.4	980,418	86.2
Excess-profits tax on returns showing no net income	38	.5	38		−38	
Total	7,674	100.0	596,049	100.0	3,679,186	86.1

[1] Excludes returns of corporations showing deficits.

Source: Adapted from U. S. Treasury Department, Statistics of Income for 1934, pt. 2, p. 8.

TABLE 15.—*Corporate net income, tax paid, and amount remaining after tax, 1935*[1] *(by net income classes)*

[Dollar figures in thousands]

Net income classes	Returns		Net income		Income tax	
	Number	Percent of total	Amount	Percent of total	Amount	Percent of total
Under $1,000	68,392	41.7	$22,692	0.4	$3,119	0.4
$1,000 to $2,000	19,971	12.2	28,820	.6	3,960	.6
$2,000 to $3,000	11,995	7.3	29,517	.6	4,057	.6
$3,000 to $4,000	7,820	4.8	27,097	.5	3,722	.5
$4,000 to $5,000	5,715	3.5	25,552	.5	3,512	.5
$5,000 to $10,000	16,014	9.8	114,074	2.2	15,668	2.2
$10,000 to $15,000	7,818	4.7	95,733	1.9	13,159	1.9
$15,000 to $20,000	4,653	2.8	80,779	1.6	11,100	1.6
$20,000 to $25,000	3,280	2.0	73,201	1.4	10,049	1.4
$25,000 to $50,000	7,547	4.6	266,200	5.2	36,581	5.2
$50,000 to $100,000	4,840	3.9	339,824	6.5	46,703	6.5
$100,000 to $250,000	3,445	2.1	532,638	10.3	73,240	10.3
$250,000 to $500,000	1,335	.8	464,391	9.0	63,858	9.0
$500,000 to $1,000,000	696	.4	485,093	9.4	66,712	9.4
$1,000,000 to $5,000,000	597	.3	1,166,034	22.5	160,418	22.6
$5,000,000 and over	113	.1	1,413,077	27.4	194,298	27.3
Excess-profits tax on returns with no net income						
Total	164,231	100.0	5,164,723	100.0	710,156	100.0

Net income classes	Excess profits tax		Total tax		Net income remaining after tax	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of net income
Under $1,000	$66	0.3	$3,185	0.4	$19,507	86.0
$1,000 to $2,000	112	.5	4,072	.6	24,748	85.9
$2,000 to $3,000	125	.5	4,182	.6	25,335	85.8
$3,000 to $4,000	136	.5	3,858	.5	23,239	85.8
$4,000 to $5,000	135	.5	3,647	.5	21,905	85.7
$5,000 to $10,000	655	2.6	16,323	2.2	97,751	85.7
$10,000 to $15,000	574	2.3	13,733	1.9	82,000	85.7
$15,000 to $20,000	511	2.1	11,611	1.6	69,168	85.6
$20,000 to $25,000	414	1.7	10,463	1.4	62,738	85.7
$25,000 to $50,000	1,654	6.6	38,235	5.2	227,965	85.6
$50,000 to $100,000	2,053	8.2	48,756	6.6	291,068	85.7
$100,000 to $250,000	3,243	13.0	76,483	10.4	456,155	85.6
$250,000 to $500,000	2,468	9.9	66,326	9.0	398,065	85.7
$500,000 to $1,000,000	2,092	8.4	68,804	9.4	416,289	85.8
$1,000,000 to $5,000,000	3,600	14.4	164,018	22.3	1,002,016	85.9
$5,000,000 and over	7,110	28.4	201,408	27.4	1,211,669	85.7
Excess-profits tax on returns with no net income	20	.1	20		−20	
Total	24,969	100.0	735,125	100.0	4,429,598	85.8

[1] Excludes returns of corporations showing deficits.

Source: Adapted from U. S. Treasury Department, Statistics of Income for 1935, pt. 2, p. 7.

TABLE 16.—*Corporate net income, tax paid, and amount remaining after tax, 1936*[1] *(by net income classes)*

[Dollar figures in thousands]

Net income classes	Returns		Net income		Normal tax		Undistributed profits tax	
	Number	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
Under $1,000	74, 728	36. 8	$26, 107	0. 3	$2, 094	0. 2	$1, 227	0. 9
$1,000 to $2,000	24, 526	12. 1	35, 946	. 4	2, 878	. 3	1, 393	1. 0
$2,000 to $3,000	14, 767	7. 3	36, 666	. 4	3, 110	. 3	1, 199	. 8
$3,000 to $4,000	10, 320	5. 1	36, 164	. 4	3, 238	. 3	1, 067	. 7
$4,000 to $5,000	7, 864	3. 9	35, 554	. 4	3, 281	. 3	972	. 7
$5,000 to $10,000	21, 438	10. 5	153, 967	1. 6	14, 859	1. 4	3, 927	2. 7
$10,000 to $15,000	10, 939	5. 3	135, 344	1. 4	13, 416	1. 3	3, 420	2. 4
$15,000 to $20,000	6, 302	3. 1	110, 144	1. 2	11, 175	1. 1	2, 708	1. 9
$20,000 to $25,000	4, 447	2. 2	100, 175	1. 1	10, 424	1. 0	2, 443	1. 7
$25,000 to $50,000	10, 959	5. 4	388, 413	4. 1	42, 031	4. 1	9, 366	6. 4
$50,000 to $100,000	7, 046	3. 5	498, 682	5. 2	57, 409	5. 6	12, 173	8. 4
$100,000 to $250,000	5, 233	2. 6	813, 120	8. 6	97, 053	9. 5	19, 422	13. 4
$250,000 to $500,000	2, 107	1. 0	738, 865	7. 8	88, 131	8. 6	15, 591	10. 7
$500,000 to $1,000,000	1, 197	. 6	835, 894	8. 8	99, 622	9. 7	15, 882	10. 9
$1,000,000 to $5,000,000	1, 058	. 5	2, 145, 833	22. 6	241, 184	23. 6	29, 112	20. 1
$5,000,000 and over	230	. 1	3, 387, 367	35. 7	334, 888	32. 7	25, 071	17. 3
Total	203, 161	100. 0	9, 478, 241	100. 0	1, 024, 793	100. 0	144, 972	100. 0

Net income classes	Excess profits tax		Total tax		Net income remaining after tax	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
Under $1,000	$162	0. 8	$3, 483	0. 3	$22, 624	86. 7
$1,000 to $2,000	247	1. 1	4, 518	. 4	31, 428	87. 4
$2,000 to $3,000	261	1. 2	4, 570	. 4	32, 096	87. 5
$3,000 to $4,000	276	1. 3	4, 581	. 4	31, 583	87. 3
$4,000 to $5,000	296	1. 4	4, 549	. 4	31, 005	87. 2
$5,000 to $10,000	1, 285	6. 0	20, 071	1. 7	133, 896	87. 0
$10,000 to $15,000	1, 053	4. 9	17, 889	1. 5	117, 455	86. 8
$15,000 to $20,000	814	3. 7	14, 697	1. 2	95, 447	86. 7
$20,000 to $25,000	690	3. 2	13, 557	1. 1	86, 618	86. 5
$25,000 to $50,000	2, 290	10. 5	53, 687	4. 5	334, 726	86. 2
$50,000 to $100,000	2, 584	12. 0	72, 166	6. 1	426, 516	85. 5
$100,000 to $250,000	3, 153	14. 6	119, 628	10. 0	693, 492	85. 3
$250,000 to $500,000	1, 942	9. 0	105, 664	8. 8	633, 201	85. 7
$500,000 to $1,000,000	2, 208	10. 2	117, 712	9. 9	718, 182	85. 9
$1,000,000 to $5,000,000	3, 106	14. 3	273, 402	23. 0	1, 872, 431	87. 3
$5,000,000 and over	1, 243	5. 8	361, 202	30. 3	3, 026, 165	89. 3
Total	21, 610	100. 0	1, 191, 376	100. 0	8, 286, 865	87. 4

[1] Excludes returns of corporations showing deficits.

Source: Adapted from U. S. Treasury Department, Statistics of Income 1936 for pt. 2, p. 11.

TABLE 17.—*Individual net income, tax paid, and amount remaining with taxpayers, 1929–36*

[Dollar figures in thousands]

Year	Net income class	Number of returns [1]	Percent of total	Net income	Percent of total	Tax assessed	Percent of total	Amount remaining with tax payers	Percent of net income
1929	Under $5,000	1,477,418	60.1	$4,134,717	20.2	$4,387	0.4	$4,130,330	99.9
	$5,000 to $10,000	606,599	24.6	4,144,456	20.2	9,551	1.0	4,134,905	99.8
	$10,000 to $15,000	163,743	6.7	1,980,152	9.7	15,918	1.6	1,964,234	99.2
	$15,000 to $50,000	171,400	7.0	4,219,539	20.6	157,879	15.8	4,061,660	96.3
	$50,000 to $100,000	24,073	1.0	1,646,476	8.0	160,814	16.0	1,485,662	90.2
	$100,000 to $500,000	13,027	.5	2,486,175	12.1	356,117	35.5	2,130,058	85.7
	$500,000 and over	1,489	.1	1,881,977	9.2	297,273	29.7	1,584,704	84.2
	Total	2,458,049	100.0	20,493,492	100.0	1,001,939	100.0	19,491,553	95.1
1930	Under $5,000	1,286,399	63.1	$3,562,788	26.0	$9,968	2.1	$3,552,820	99.7
	Percent increase	−12.9		−13.8		127.2		−14.0	
	$5,000 to $10,000	491,792	24.1	$3,332,471	24.3	$17,448	3.7	$3,315,023	99.5
	Percent increase	−18.9		−19.6		82.7		−19.8	
	$10,000 to $15,000	122,625	6.0	$1,481,098	10.8	$16,276	3.4	$1,464,822	98.9
	Percent increase	−25.1		−25.2		2.2		−25.4	
	$15,000 to $50,000	116,982	5.8	$2,825,271	20.0	$105,993	22.2	$2,719,278	96.2
	Percent increase	−31.8		−33.1		−32.9		−33.1	
	$50,000 to $100,000	13,645	.7	$919,040	6.7	$87,379	18.3	$831,661	90.5
	Percent increase	−43.3		−44.2		−45.7		−44.0	
	$100,000 to $500,000	5,734	.3	$1,000,318	7.4	$144,264	30.3	$856,054	85.6
	Percent increase	−56.0		59.8		−59.5		−59.8	
	$500,000 and over	468		$571,598	4.2	$95,386	20.0	$476,212	83.3
	Percent increase	−68.6		−69.6		−67.9		−70.0	
	Total	2,037,645	100.0	$13,692,584	100.0	$476,714	100.0	$13,215,870	96.5
	Percent increase	−17.11		−33.2		−52.4		−32.2	
1931	Under $5,000	988,575	64.8	$2,712,465	29.1	$7,265	3.0	$2,705,200	99.7
	Percent increase	−23.2		−23.9		−27.1		−23.9	
	$5,000 to $10,000	363,895	23.9	$2,449,920	26.4	$12,407	5.0	$2,437,513	99.5
	Percent increase	−26.0		−26.5		−28.9		−26.5	
	$10,000 to $15,000	86,956	5.7	$1,048,074	11.3	$10,845	4.4	$1,037,229	99.0
	Percent increase	−29.1		−29.2		−33.4		−29.2	
	$15,000 to $50,000	75,106	4.9	$1,779,294	19.1	$61,148	24.8	$1,718,146	96.6
	Percent increase	−35.8		−37.0		−42.3		−36.8	
	$50,000 to $100,000	7,830	.5	$528,049	5.7	$44,780	18.2	$483,269	91.5
	Percent increase	−42.6		−42.6		−48.8		−41.9	
	$100,000 to $500,000	2,958	.2	$510,844	5.5	$67,340	27.4	$443,504	86.8
	Percent increase	−48.4		−48.9		−53.3		−48.2	
	$500,000 and over	226		$268,371	2.9	$42,343	17.2	$226,028	84.2
	Percent increase	−51.7		−53.1		−55.6		−52.5	
	Total	1,525,546	100.0	$9,297,017	100.0	$246,128	100.0	$9,050,889	97.4
	Percent increase	−25.1		−32.1		−48.4		−31.5	
1932	Under $5,000	1,591,045	82.2	$3,738,117	47.2	$43,074	13.1	$3,695,043	98.8
	Percent increase	60.9		37.8		492.9		36.6	
	$5,000 to $10,000	239,622	12.3	$1,614,742	20.3	$35,615	10.8	$1,579,127	97.8
	Percent increase	−34.2		−34.1		187.1		−35.2	
	$10,000 to $15,000	49,494	2.6	$595,574	7.5	$22,789	6.9	$572,785	96.2
	Percent increase	−43.1		−43.2		110.1		−44.8	
	$15,000 to $50,000	48,196	2.5	$1,194,463	15.1	$70,907	21.6	$1,123,556	94.1
	Percent increase	−35.8		−32.9		16.0		−34.6	
	$50,000 to $100,000	5,902	.3	$393,206	5.0	$47,150	14.3	$346,056	88.0
	Percent increase	−24.6		−25.5		5.3		−28.4	
	$100,000 to $500,000	1,730	.1	$290,372	3.7	$74,935	22.5	$215,437	74.2
	Percent increase	−41.5		−43.2		11.3		−51.4	
	$500,000 and over	106		$93,114	1.2	$35,493	10.8	$57,621	61.9
	Percent increase	−53.1		−65.3		−16.2		−74.5	
	Total	1,936,095	100.0	$7,919,588	100.0	$329,963	100.0	$7,589,625	95.8
	Percent increase	26.9		−14.8		34.1		−16.2	
1933	Under $5,000	1,423,239	81.4	$3,265,497	44.2	$36,549	9.8	$3,228,948	98.9
	Percent increase	−10.6		−12.7		−15.2		−12.6	
	$5,000 to $10,000	222,363	12.7	$1,497,521	20.3	$35,077	9.4	$1,462,444	97.7
	Percent increase	−7.2		−7.3		−1.5		−7.4	
	$10,000 to $15,000	47,033	2.7	$567,025	7.8	$23,885	6.4	$543,140	95.8
	Percent increase	−5.0		−4.8		4.8		−5.2	
	$15,000 to $50,000	47,033	2.7	$1,175,066	15.9	$83,446	22.2	$1,091,620	92.9
	Percent increase	−2.4		−1.6		17.7		−2.9	
	$50,000 to $100,000	6,021	.4	$401,049	5.5	$57,491	15.4	$343,558	85.7
	Percent increase	2.0		2.0		21.9		−0.7	

[1] Excludes nontaxable returns.

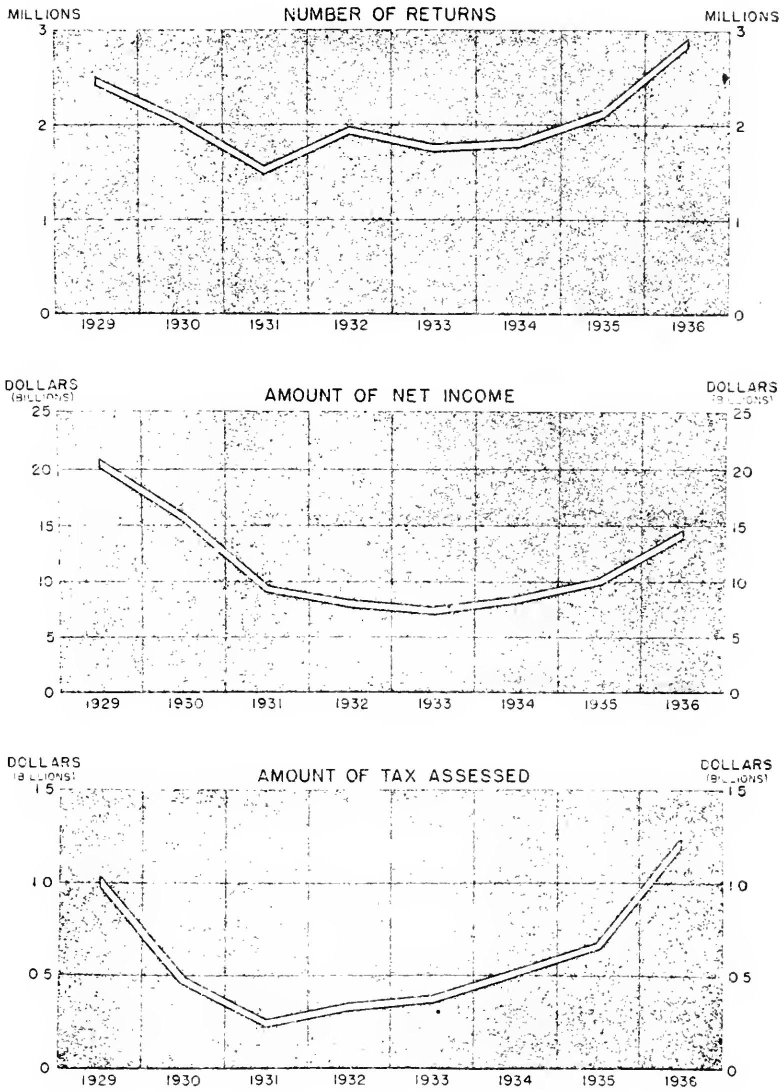
TABLE 17.—*Individual net income, tax paid, and amount remaining with taxpayers, 1929–36*—Continued

Year	Net income class	Number of returns	Percent of total	Net income	Percent of total	Tax assessed	Percent of total	Amount remaining with taxpayers	Percent of net income
1933	$100,000 to $500,000	1,920	0.1	$322,944	4.4	$88,691	23.7	$234,253	72.5
	Percent increase	11.0		11.2		18.4		8.7	
	$500,000 and over	131		$143,558	1.9	$48,980	13.1	$94,578	65.9
	Percent increase	23.6		54.2		38.0		64.1	
	Total	1,747,740	100.0	$7,372,660	100.0	$374,119	100.0	$6,998,541	94.9
	Percent increase	−9.7		−6.9		13.4		−7.8	
1934	Under $5,000	1,379,999	76.9	$3,379,298	40.5	$34,686	6.8	$3,344,612	99.0
	Percent increase	−3.0		3.5		−5.1		3.6	
	$5,000 to $10,000	284,098	15.8	$1,916,388	22.9	$43,086	8.4	$1,873,302	97.8
	Percent increase	27.8		28.0		22.8		28.1	
	$10,000 to $15,000	63,368	3.5	$765,259	9.2	$33,424	6.5	$731,835	95.6
	Percent increase	34.7		35.0		39.9		34.7	
	$15,000 to $50,000	60,455	3.4	$1,456,863	17.5	$135,442	26.5	$1,321,421	90.7
	Percent increase	28.5		24.0		62.3		21.1	
	$50,000 to $100,000	6,093	.3	$405,976	4.9	$84,791	16.6	$321,185	79.1
	Percent increase	1.2		1.2		47.5		−6.5	
	$100,000 to $500,000	1,788	.1	$302,536	3.6	$117,014	22.9	$185,522	61.3
	Percent increase	−6.9		−6.3		31.9		−20.8	
	$500,000 and over	119		$117,239	1.4	$62,955	12.3	$54,284	46.3
	Percent increase	−9.2		−18.3		28.5		−42.6	
	Total	1,795,920	100.0	$8,343,559	100.0	$511,398	100.0	$7,832,161	93.9
	Percent increase	2.8		13.2		36.7		11.9	
1935	Under $5,000	1,617,746	76.6	$3,976,578	39.6	$40,232	6.1	$3,936,346	99.0
	Percent increase	30.1		17.7		16.0		17.7	
	$5,000 to $10,000	332,872	15.8	$2,245,537	22.4	$48,728	7.4	$2,196,809	97.8
	Percent increase	17.2		17.2		13.1		17.3	
	$10,000 to $15,000	75,497	3.6	$911,375	9.1	$41,394	6.3	$869,981	95.5
	Percent increase	19.1		19.1		23.8		18.9	
	$15,000 to $50,000	74,096	3.5	$1,793,206	17.9	$169,030	25.7	$1,624,176	90.6
	Percent increase	22.6		23.1		24.8		22.9	
	$50,000 to $100,000	8,033	.4	$535,772	5.3	$112,816	17.2	$422,956	78.9
	Percent increase	31.8		32.0		33.1		31.7	
	$100,000 to $500,000	2,497	.1	$424,198	4.2	$165,416	25.2	$258,782	61.0
	Percent increase	39.7		40.2		41.4		39.5	
	$500,000 and over	150		$147,441	1.5	$79,823	12.1	$67,618	45.9
	Percent increase	26.1		25.8		26.8		24.6	
	Total	2,110,890	100.0	$10,034,107	100.0	$657,439	100.0	$9,376,668	93.4
	Percent increase	17.5		20.3		28.6		19.7	
1936	Under $5,000	2,184,846	76.4	$5,328,216	37.5	$60,560	5.0	$5,267,656	98.9
	Percent increase	35.1		34.0		50.5		33.8	
	$5,000 to $10,000	440,137	15.3	$2,973,800	20.9	$79,369	6.5	$2,894,431	97.3
	Percent increase	32.2		32.4		62.9		31.8	
	$10,000 to $15,009	105,582	3.7	$1,277,526	9.0	$67,755	5.6	$1,209,771	94.7
	Percent increase	39.8		40.2		63.7		39.1	
	$15,000 to $50,000	112,204	3.9	$2,751,659	19.4	$299,197	24.6	$2,452,462	89.1
	Percent increase	51.4		53.4		77.0		51.0	
	$50,000 to $100,000	13,620	.5	$913,518	6.4	$216,045	17.8	$697,473	76.4
	Percent increase	69.6		70.5		91.5		64.9	
	$100,000 to $500,000	4,480	.2	$743,731	5.2	$335,007	27.6	$408,724	55.0
	Percent increase	79.4		75.3		102.5		57.9	
	$500,000 and over	239		$230,403	1.6	$156,083	12.9	$74,320	32.3
	Percent increase	59.3		56.3		95.5		9.9	
	Total	2,861,108	100.0	$14,218,853	100.0	$1,214,016	100.0	$13,00[illegible],837	91.5
	Percent increase	35.5		41.7		84.7		38.7	

Source: Adapted from U.S. Treasury Department, Statistics of Income for 1929, and annual issues through 1936.

CHART 1

INCOME TAX RETURNS, NET INCOME, AND TAX ASSESSED
UNITED STATES, 1929-1936



SOURCE United States Treasury Department, STATISTICS OF INCOME, 1929-1936

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